

FAR EASTERN ECONOMIC REVIEW

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Vol. II.

Hongkong, March 12th, 1947.

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The Hole in the Budget of Hongkong

The fiscal year of 1946/47, covering 11 months ending March 31, 1947, was estimated to result in a deficit of \$110 million. It is believed that the deficit will turn out to be smaller on account of introduction of new forms of taxation (consumption tax on meals and liquor) and increases of duties (Stamp duty in respect of real estate value increase, tobacco, liquor) as well as under-estimation of several items on the revenue side. The actual deficit will probably not exceed \$90. This deficit will have to be taken care of by a loan.

It is certain that Hongkong's revenue for the next fiscal year (April 1, 1947 to March 31, 1948) will produce higher revenue than during the first 11 months of postwar Civil Administration of the Colony. Recurrent expenditure for the 1946/47 year was estimated at 90 million, and extraordinary expenditure at \$71 million, a total of \$161 million (items of expenditure were enumerated in our issue Oct. 16, page 8). The introduction of the tax on consumption of meals and liquor, the rate increases of tobacco and liquor duties, and the greater business activity in the Colony will, most probably, result in an additional revenue of between \$30 to 40 million. Estimated revenue in 1946/47 was \$51 million and the estimated deficit on recurrent expenditures amounted to \$38½ million. It is likely that revenue and recurrent expenditures for the coming fiscal year will balance each other.

The problem for the next fiscal year is presented by the amount of extraordinary expenditures required by the Colony, and the ways and means to raise revenue to cover these expenditures. During the past fiscal year extraordinary expenditure was estimated at \$71 million but this amount will probably not be required for the coming 12 months. Assuming that extraordinary expenditures will be required to the amount of \$50 million, revenue can be raised by introduction of new forms of taxation, or by the convenient though not practical escape method of floating a loan. Such loan would have first to cover the estimated deficit for the year 1946/47 of about \$90 (according to our optimistic appraisal as above) plus \$50 million (provided that 1) recurrent revenue and expenditure will balance each other, and 2) extraordinary expenditures will not exceed \$50 million), making a total of \$140 million. The local market would easily digest a loan of about \$150 million. The question, however, is whether postponement is the right course to take.

Income tax is the fairest and most social form of taxation. An alternative suggestion put forward by local business interests advocated the introduction of a sales tax. London did not think it fair to impose more indirect taxation in Hongkong although local conditions made it appear

as if direct taxation would be difficult to collect and indirect taxation, although fundamentally unsocial, would recommend itself. The criterion for genuine fairness of income tax is found in the taxable levels; if levels for salaries, profits and other emoluments are fairly and wisely adopted, there should be no just objection to the introduction of income tax. The amount of the standard rate, whether 10 or 20%, is immaterial; it is essential to fix liberal and generous levels for taxation and to stipulate low enough fractions of the standard rate for inferior earnings and sufficiently high multiplications of the standard rate for top earnings, irrespective of being made in individual business, professions or corporation profits. The application of fractions and multiplications of the standard rate is, next to the level, the other crucial test for the fairness of income tax introduction.

However, the actual influence in deciding on levels and standard rate will be the fiscal calculation of 1) what revenue is desired to be raised, and 2) how large the taxable income of the resident population of the Colony can be estimated. The War Revenue estimate for 1941/42 provided only for a total of \$9.3 million. The future requirements of the Colony might necessitate the raising for 1947/48 of about \$50 million. Either the earning power and unearned increments of the Colony will have to be increased, or income tax will have to start at relatively lower levels and at a relatively higher standard rate. A prosperous community does not feel the pinch of income tax. The very issue of income tax in Hongkong is whether the working and earning population here can afford to dispense with, say, \$50 million, taken from their salaries, profits and other emoluments. It will require the closest study to arrive at a fair conclusion as regards 1) minimum fiscal requirements for 1947/48, 2) an estimate of the total income of Hongkong's residents, 3) an estimate of the total income of "taxable" earnings and profits of Hongkong's residents; by "taxable" being meant, say, the exclusion from taxation of annual individual earnings of \$10,000 for single people, with proper adjustments for families, and the exclusion from taxation of business profits under \$15,000.

Many months prior to the official publication of the draft Bill, which is, incidentally, a pure London product, Hongkong discussed the impending income tax but concrete information was lacking. With the publication of the draft on March 8, we are one step farther but the essential points, i.e. levels and standard rate, have now to be discussed. There will be ample opportunity for every vocal organisation and individual to be heard. Criticism has been levelled against Government for the

method used in making public the draft Bill. It would have been more politic to prepare and give advance-information, to publish the recommendations and findings of the Taxation Committee at the time of compilation, and to exercise the Government Public Relation Office for the purpose of enlightening the community on the proposed introduction of direct taxation. The community here is understandably very sensitive about all forms of Government procedure because the principles of democratic administration have finally also become en vogue in Colonies, Protectorates and Mandates.

The slogan, however, of "no taxation without representation" was seized upon not in good faith! Even with the fullest representation, income tax must be resorted to in a community which faces a budget deficit; if proper and undiluted representation would be achieved, income tax would only be heavier on the vested interests and the propertied classes. A non-representative government appears to be more tender when it comes to taxing the possessions and profits of vested interests who, in turn, uphold and nurture such government. The storm of objections witnessed here during the last few days seems, therefore, not to make much sense. On the score of insufficient public information and the usual official hugger-mugger, Government can be rightly blamed. So far no government balance sheet has been made public and what information was available was based on leakages. The full details of Government Estimates for 1946/47 have not been released for public information although many copies of the "blue book" are circulating in the Colony.

In spite of the uncommunicative attitude of Government departments, the local Administration deserves of the highest praise and appreciation for efficient, intelligent and good rule; even if that proposed pseudo-self-government Municipal Council is to be established to-day, there cannot be envisaged an administrative change for the better, but probably for the worse (because less well-trained, earnest, devoted British civil servants will manage the Colony's affairs, while there will be an influx of new officials of considerably less ability, character and integrity).

Budget 1946/47 (11 months) provided for total expenditures of \$161,871,976, principal items having been: Education Dept. \$6,392,000, Harbour Dept. \$8,865,000, Railway \$11,086,000, Medical Dept. \$10,711,000, Police \$5,849,000, Public Works, recurrent \$6,189,000, P. W. extraordinary \$16,127,000, Stores Dept. \$8,730,000, and the largest item "Miscellaneous services" \$62,838,000. Revenue was estimated at \$50,307,400. The 11 items were: Duties \$18,200,000, Assessed taxes \$5,750,000, Internal Revenue \$7 million, Licences, fines & forfeitures \$1,716,400, Fees of Court & Office \$6,140,500, Water Revenue \$2,600,000, Post Office \$3,098,000, Railway \$3,402,000, Land rents, properties revenue \$1,709,500, Miscellaneous \$1,491,000, Land sales \$200,000.

Evasion of Taxation

"Foreign fool must pay, Chinese merchant run away"—that is, in a nutshell, the principal pique of local business men, of any nationality, who do no longer trust in the decency of the fellow-taxpayer, and see for themselves no chance for escape; that goes particularly for those whose fate has been entrusted into the unfeeling hands of Chartered Accountants. As ancient as is the art of taxation, just as ancient is the science of evasion. It is a commonly accepted proof for liveliness that a merchant novice has outsmarted the assessor and the tax collector. Great deeds of derring-do are related of history's leading tax jumpers; and there are many here who, for the hell of it, cannot wait for the moment when they, too, can prove their valour and ingenuity. Tax evasion has often been developed to a sport of vicarious adventuring.

Income tax is a characteristic of modern civilised communities. For Hongkong, however, income tax is a novel and exciting experience. While annoying in its apparent complexity, and perplexing by the outmoded legalistic jargon of its composition, the income tax imposition will simultaneously tax the ingenuity particularly of our proverbially ingenious Chinese contemporaries.

There is no entry and exit control in the Colony except for hapless Europeans. The Chinese, and all those who can pass for Chinese, are unrestricted in their swarming here and sallying forth. When the time of reckoning comes and the bailiff is about to put in an unwelcome appearance, quite a few aliases and triple book-keepers will be suddenly gripped by nostalgia with subsequent unrecorded departure.

Not so the European, nostalgia or no nostalgia. There are on record heavy volumes of dossiers dealing with aliens and foreigners (meaning non-British White brothers), and very numerous Police Regulations, which are as meticulous as they are superfluous, demanding registration at every turn an alien undertakes; every absence from the Colony, change of domicile, expected return must be reported in person on penalty of fine and incarceration; besides every time an alien wants to leave the Colony, even for one day, a re-entry visa must be applied for against a contribution of \$13, which, of course, is gladly offered for bolstering the Colony's finances.

Much has been made here of the Chinese businessman's apparently congenital aversion to income tax. Chinese labour unions have, however, not concurred in this scientifically erroneous conception but have opined, with tongue in cheek, that direct taxation would be just the thing. Not that labour union leaders were greatly exercised about Hongkong's sound budget but they hold, with inescapable logic, that indirect taxation, such as a sales tax, would hurt the proletariat more in the pocket than the taipan.

One cannot expect that a tax assessment and collection machinery will start functioning here without blundering; it is a stupendous task to enforce income tax in an Oriental complexity like Hongkong. However, it is an experiment which, apart from lucrative increment which is purely incidental, may provide research material for students of mass and individual psychological reactions under the impact of direct taxation.

Imposition of Income Tax in Hongkong

Hongkong Government appointed in September 1946 a Taxation Committee which considered the question of the imposition of Income Tax in the Colony, and submitted in December its report to Govt. The introduction of income tax was inevitable since Govt. was in urgent need of revenue and could no longer rely on the British Treasury. The Taxation Committee's report in December 1946 stated:

"It was generally agreed that the imposition of a tax on incomes would theoretically result in the most equitable distribution of the burden of taxation and that a tax on incomes is inevitable here if the budget of the Colony is to be balanced and if Hong Kong is to conform to the standards generally expected in the middle of the 20th century. Complete new income tax legislation will take a long time to prepare and cannot possibly be brought into operation in sufficient time to collect tax during 1947 on the basis of income which accrued during the year ending 31st March, 1947. We consider it essential that, in order to meet local conditions any income tax legislation must be as simple as possible and some departures from general practice elsewhere will be necessary.

The War Revenue Ordinance, 1941, is still technically in operation as no Peace Treaty has yet been concluded. This was, however, always regarded as a purely temporary measure and it did not in consequence contain a number of provisions which would normally have been included in permanent legislation of this kind. In the main it operated fairly satisfactorily but, if it is to remain in operation, certain modifications will be desirable such as provision for deductions in respect of Life Insurance in respect of Life Insurance premia and the carrying forward of losses against future profits.

Thus even if the War Revenue Ordinance were left on the Statute Book a good deal of amendment would be necessary and as the introduction of completely new legislation before the end of the present financial year is not a practical proposition we recommend that the present War Revenue Ordinance should be completely recast incorporating such amendments and additions as may be found desirable. In recasting this legislation we are of opinion that Government should consider means to allow rehabilitation costs as a charge against profits during the next few years.

We recommend that the taxation year should remain as at present, i.e. ending on the 31st March and that taxes similar to those levied under the War Revenue Ordinance be reimposed with effect from the 1st April, 1947, though the tax collected will of course be based on receipts during the year ending 31st March, 1947."

On March 8, Government made public a draft Bill "Inland Revenue Ordinance, 1947" which is to replace the "War Taxation Ordinance, 1941". The draft Bill will first be submitted to the Taxation Committee for further deliberation and recommendations, and, after passing through the Executive Council and Legislative Council, with possible amendments, will become law.

It is for the first time in Hongkong's history that direct taxation is to be decreed. Taxes will be charged on the basis of a standard rate which has been reported to amount to 20 per cent; however, nothing definite is yet known. The period of first income tax collection will be from April 1, 1947 to March 31, 1948.

Assessment and collection of taxes will be under authority of the "Board of Inland Revenue". The Board will consist of the Financial Secretary, one Civil Servant, and three other members, all to be appointed by the Governor. The executive officer of the Board will be the Commissioner (Mr. E. W. Podney, formerly of the Treasury, has been tentatively appointed, with a staff of about 70, and headquarters at Windsor House) who will be assisted by a deputy commissioner, assistants and assessors. A "Board of Review" (consisting of about 20 members) will have to consider appeals regarding assessments made.

Income tax will be charged on (1) Properties' rateable value, (2) Profits made by individuals in trade, professions and business; by partnerships; and by corporations, (3) Salaries and wages and other emoluments, and (4) Interests derived from debentures, mortgages, bills of sale, loans, deposits, etc.

The draft Bill outlines the proposed scales of taxable income, and recites the number of penalties for evasions of tax payments.

The effects of the imposition of income tax will comprise: a slight increase in cost of living; development of evasion practices; reduction of business investments from abroad.

Hongkong Stock & Share Market

The introduction of Income Tax in the Colony has been the topic of discussion at the Stock and Share Market during the last days of the week under review (closing March 8). The method and procedure of the proposed introduction was severely criticised and the generally critical opinions expressed here by the English and Chinese press were heartily endorsed. The budgetary necessity of an income tax in Hongkong is, on the whole, not questioned; the deficit of the Colony has to be covered, and income tax appears as a logical measure to take. However, the undemocratic approach in the introduction of direct taxation is resented. One was led to believe that wiser counsels in London may have prevailed, and that, prior to an announcement by Government regarding introduction of income tax, ample opportunity would be given to discuss this question well in advance of any decisions taken by Government. Many people were rudely shocked by the undemocratic procedure which obviously had as its aim the establishment of a fait accompli.

There is far too much hugger-mugger in Hongkong, an insistence on keeping information secret and preventing the knowing what is going on. Such outlook and principles are definitely not in keeping with the times. There are many modern and progressive officials in Hongkong but they seem not to be placed in responsible positions. The case of the income tax introduction will, apart from causing much friction and unnecessary bitterness, bring home again the backwardness of the present administration in Hongkong. Although it is the public, and the taxpayer, who have a vital right to be informed on what the Authority proposes to do or is actually doing, such rights are often neglected.

The outlook of business on the share market for the current week is conditioned on what is going to transpire about concrete steps to be taken in connection with direct taxation in Hongkong. The trend is definitely downward as buyers are holding off and nobody, for the time being, can be expected to rush into the market when future earning prospects of Companies must be judged by different standards. Sellers will prevail over buyers which, while not necessarily bringing down prices, will lead to temporary stagnancy.

The opening of the new Stock Exchange has certainly injected optimism into the investing and speculating public, although the amalgamation was known for several weeks past. The importance of a regular share market cannot be over-estimated; it constitutes the most convenient and reliable institution for guiding and channeling idle money into profitable and useful investments.

There is now much talk and anticipation about the realisation of some larger industrial propositions which will require public financing; the flotation of debentures of some companies, issue of new share capital, and the placing of government loans on the market will require the closest co-operation of the share brokers. A large number of shares, mostly previously quoted at the Shanghai Stock Exchange, will be listed here although business could only commence after government will lift all restrictions on share transactions which at present militate against the expansion of share business.

The prospects for the industrialisation of the Colony are definitely encouraging, however, it remains to be seen whether many new factories would consider forming public companies. Many of Hongkong's public companies are under-capitalised as has been repeatedly stressed in this paper. Issue of new capital by a number of companies is reportedly under consideration by many directors.

If Government will, as is assumed, float a loan, the market could easily absorb an amount of 100 to 200 million, provided that conditions are attractive. The larger part of a government loan would be taken up, however, by banks, insurance companies and several leading financial and commercial institutions. There is much interest evident in the market as regards the present financial position of the Colony, and the publication of a government balance sheet, with all assets and liabilities clearly shown would no doubt serve a useful purpose, besides being a best-seller.

Government will, when it finally comes to think of it, also derive substantial revenue through the medium of the Hongkong Stock Exchange Ltd.

Local sharebrokers are not renowned for their analytic study and economic investigation into public financing and investments, but there are some notable exceptions. Such brokers are indispensable investment advisers to the public since their broad knowledge and day-to-day research into the general financial and particular companies' position proves of inestimable value. The service which they daily perform can only be appreciated by the investing public, and those financial interests who depend on the market for support and confidence.

The Hongkong Stock Exchange, Ltd.

As from March 1, the new, amalgamated Stock Exchange started functioning with Mr. N. V. A. Croucher as Chairman, Mr. Gilbert A. Harriman as Vice Chairman, and Messrs. P. M. N. da Silva, Choa Po-min, Ezra Abraham, A. H. Potts, J. F. Grose, Soo Pui-chen, R. A. Dastur and C. A. L. Rickett as Committee Members.

Secretary of new Exchange is Mr. John Hennessy Seth, who retired from business in 1939 but now took up his new assignment. Mr. Seth was a founder of the firm of Messrs. Percy Smith, Seth & Fleming. The secretaries of the two old organisations, Hongkong Stock Exchange and Sharebrokers Association, both now in liquidation, Messrs. P. A. Waller and F. L. Silva, resigned their positions.

The two old exchange organisations had 27 members each at the time of amalgamation; the new Exchange has at present, accordingly, 54 members (including those absent from the Colony). The total of seats available at the Exchange is 60. It is expected that another 6 applicants for acquisition of seats at the Exchange will soon send in their forms. The fee per seat is \$30,000. Seats are no longer sold cum property rights. The two houses in Ice House Street (Nos. 7 and 10) are valued between \$4-5 million.

The members of the Hongkong Stock Exchange Ltd. are as follows:

(Ex-HK Stock Exchange) Messrs. E. Abraham, J. T. Bagram, N. V. A. Croucher, Choa Po-min, M. Carlo, W. H. Choy, J. J. Edgar, P. M. Ellis, R. J. R. Elias, S. E. Edgar, A. J. Edgar, A. Hillaly, Ellis Hayim, Horace Lo, K. B. Lee, Y. M. Loo, Li Shiu-pang, Dr. F. H. Kew, R. Pestonji, A. H. Potts, W. T. Stanton, P. M. N. da Silva, P. Tester, P. A. Waller, J. F. Wright, Yeung Hin-suen, F. R. Zimmermann.

(Ex-Sharebrokers Association) Messrs. C. C. Blake, A. A. R. Botelho, M. A. Carvalho, A. H. Carroll, Chan Yat-fung, R. A. Dastur, E. Essig, J. F. Grose, G. A. Harriman, S. Howard, R. Kopelman, A. Kitchell, Ko Tait-tim, Harry Kew, Lau Tak-po, Lo Kin-fai, Ling Man-i, Mok Ying-kie, C. A. L. Rickett, F. L. Silva, Soo Pui-chen, Soo Pei-shao, Seu Kon-chi, H. R. Sequeira, B. C. Tavadia, F. S. Tong (deceased), Yeung Chau-fan.

Trading at the trading hall (Ice House St. No. 10) takes place in the morning during which session unified rates for all shares traded in daily are being arrived at. In case of sale of the premises, another trading room will be made available.

New Applications

Mr. Victor M. Hammond has withdrawn his application for acquisition of a seat (see our issue Feb. 26, page 109). Mr. Yeung Hin-suen, 307 Whiteley Laidlaw Building, applied for membership, and has already been included in the above list of brokers.

The Week's Business (Mar. 3-8)

The market was firm at the beginning of the week and remained so until Wednesday afternoon. Thursday opening was on a slightly easier side, and in the afternoon, rates went lower. On Friday morning, on account of the report of the introduction of Income Tax the whole market reacted in a lull. Buyers practically kept off.

Banks.—Opening of the week, sales at \$1700 and went up as high as \$1750 but closed \$1700.—sales. London register went up to \$105½ but closed at \$103½. Banks of East Asia after sales at \$155 have now sellers at that rate.

Insurances.—Cantons went up to \$405 while Unions changed hands at \$700 with sellers at that rate and buyers only bidding \$690. H.K. Fires changed hands at \$305 with sellers at the close at that rate.

Shipping.—This section had been quiet all the week, without any business being reported.

Docks, Wharves, Godowns, etc.—Wharfs sold as high as \$161 closed sellers at \$157½ and buyers bidding \$155. A lot of shares changed hands. Docks after sales at \$19½ closed sellers. China Providents came to business at \$14.85, closing sales at \$14.10.

Minings.—No sales reported in this section.

Lands, Hotels & Buildings.—Hotels were pretty steady all the week round. Opening sales at \$18.85, went down as low as \$18.40, closed sales at \$18.60 with buyers at \$18.50. Lands changed hands as high as \$84 but then eased off at \$83. Land Debentures are unobtainable at the quoted buying rates. Humphreys changed hands at \$18.25 and \$18. Realities sold at \$17.75, closed sellers at \$17.25 with sales. Chinese Estates are unobtainable at \$155.

Public Utilities.—Quite a large turnover in this section has been reported. Trams were as high as \$37 at closed sellers at \$35. Peak Trams were not in business. "Star" Ferries ran at \$73 buyers after sales at \$72. China Lights (Old) after sales at \$12.25, now sales at \$11.40 "New" shares after sales at \$8 closed at \$8 with few

sales at \$7.75. H.K. Electrics at the opening \$36.25, closed sellers at \$33. Telephones (Old), highest business done \$39 closing at \$37.25. The new shares opened at \$20 and closed sellers at same price.

Industrials.—Small sales of cements at \$16 and \$15.75 and no enquiries at the close. Ropes also quiet at \$10.

Stores.—Dairy Farms after sales at \$42.50, closed sales at \$40½. Watsons changed hands as high as \$28 and closed sales at \$26.50. Lane Crawfords had small sales at \$24.50 and closed sellers at \$24½. Chinese Stores ruled very quiet with few sales reported.

HONGKONG STOCK EXCHANGE

Quotations as on 8th March, 1947.

Stock	Buyers	Sellers	Business done during the week or Last Sale
H.K. Govt. Loans			
4% Loan	107	—	—
3½% Loan (1934)	103	—	—
3½% Loan (1940)	103	—	—

Banks			
H.K. Bank	—	—	1,710/1,750/1,700
(Lon. Reg.)	—	—	£103½
Chartered Bank	—	—	£121.1/16
Mercantile Bk.	—	—	—
A. & B.	£24	—	—
Bank of East Asia	—	—	155

Insurances			
Canton Ins.	—	—	405
Union Ins.	690	710	690/700
China	—	—	—
Underwriters	—	1	—
H.K. Fire Ins.	—	305	305

Shipping			
Douglases	—	—	200
H.K. Steamboats	—	—	12
Indo Chinas	—	—	—
(Pref.)	120	—	—
Indo Chinas	—	—	—
(Def.)	250	—	—
Shells (Bearer)	—	—	s/-101/100½
Union Waterboats	—	40	39½

Docks, Wharves, Godowns, etc.			
H.K. & K.			
Wharves	155	—	157½/161/155
H.K. Docks	—	19½	19½
Providents	14	14½	14.85/14.10

Mining			
Raubas	6.00	—	—
H.K. Mines	—	.03	—

Lands, Hotels & Bldgs.			
H. & S. Hotels	18½	18.60	18.85/18.40/18.60
H.K. Lands	83	84	83/84½/83
H.K. Lands 4%	—	—	—
Debentures	105	—	—
Humphreys	—	18½	18½/18
H.K. Realities	—	17½	17½/17½
Chinese Estates	155	—	—

Public Utilities			
H.K. Tramways	—	35½	35/37/35
Peak Trams (Old)	—	11	—
Peak Trams (New)	—	5	—
Star Ferries	73	—	72
Yaumati Ferries	—	23½	—
China Lights (Old)	11.40	—	12/12½/11.40
China Lights	—	8	7½/8
(New)	—	33	33½/36½/33
H.K. Electrics	32½	15	—
Macao Electrics	—	—	—
Sandakan Lights	6	—	—
Telephones (Old)	—	38	37½/39/37½
Telephones (New)	—	20	19½/20

Industrials			
Canton Ices	4½	—	—
Cements	—	16	16/15½
H.K. Ropes	—	—	10

Stores, &c.			
Dairy Farms	40	40½	42½/40½
Watsons	26½	—	26½/28/26½
Lane Crawfords	—	24½	—
Sinceres	6.90	—	7.10
China Emporium	—	—	5½
Sun Co. Ltd.	3	—	3
Kwong Sang Hong 200(x.d.)	—	—	—
Wing On (H.K.)	—	87	—
Wm. Powell, Ltd.	2½	3	—

Miscellaneous			
Entertainments	26	—	26½
Constructions	—	—	—
(Old)	—	—	5½
Vibro Piling	3½	—	—
Marsmans Inv.	—	—	—
(H.K.)	s/-1/6d.	—	—

EXCHANGE & FINANCIAL MARKETS

Gold Transactions

The market relies now entirely on the export possibilities to India and China for its healthy future, however, during last week speculators could only feed on rumours which were either home-grown or directly imported from Asia's biggest rumour centre: Shanghai.

The gold prices on the black markets of Canton and Shanghai vacillated excitedly and Shanghai operators, now very active in the local market, utilised the vagaries of Chinese exchange speculations for what they were worth; and for some lucky speculators they were worth a lot. The rumour, put out on the 5th, that the official gold buying price of the Central Bank would be appreciably raised, caused quite a flurry here with subsequent firmness of the rate. However, better supporting reasons for the rate, which only weakened on the 8th, were the improving outlook for exports to India and a rather high price on the Bombay gold market (Rupees 107 on the average per one tola of 11.67 grams). Shipments of gold to Calcutta have been put through. The Financial Secretary here, who previously was reported to have considered the issue of export licences, had, of course, nothing to do with this business.

Of much larger proportions than gold was, incidentally, silver business during the past week. The high price quoted in Bombay and the adequate profit derived from buying in China and selling to India proved a very stimulating tonic to financiers here; the volume of business done in silver was unusually large. However, towards the end of the week another rumour flew around, or was it a canard, which threatened with ruin the local gold and silver speculation; it said that India would prohibit the importation of all treasure forthwith. We do not believe it, but: relata referro!

The Canton gold price recovered towards the end of the week to about CN\$610,000 per tael, and the Shanghai black market price, which earlier in the week was down at 590,000, revived and remained between CN\$620,000 to 630,000 per oz. (or over 20% over the Canton price).

The Chinese Dollar

The spot market was distinctly firm with much genuine merchant demand esp. from Swatow and other South China merchants. There were large arrivals of overseas remittances in US\$ and sterling which also tended to support the CN\$ market since remittances of Chinese money into the interior were required in almost equal amounts as came here in foreign exchange. Canton draft and Shanghai T.T. were well maintained. Another support came from the lowering of the Central Bank of China's official buying price for HK\$ which was reduced, on the 6th, by \$200, to CN\$2,300 per one HK\$. The forward market, however, was neglected although prices were also well maintained. The rumour of gold price appreciation by the Central Bank naturally tended to bring the bears to the fore.

The American Dollar

Demand and supply were well balanced and rates did not move much. The tendency is now definitely downward since no further "extraordinary" imports from U.S. are to be expected. Within a few weeks larger reservoirs of T.T. in New York ought to accumulate which will tell on the local rate. It was remarkable that during the past week many T.T. transactions were put through at no higher than the draft rate, which were not much above the bank note rate. The highest T.T. price last week was 495 but much business was done at rates between 488-492. The "different racket" in US\$ notes continues with ever more inventiveness on part of the operators. One can buy in the market small lots of US\$ at about 10 points under the daily rate if one does not mind the "Hawaii" overprint and a somewhat smudgy appearance.

The Military Yen of Dai Nippon

The scream of the market last week was the Japanese military yen's sudden and successful dash into prominence. For many months past seemingly dead and forgotten, it rehabilitated itself with the same gusto as do these days Japanese industries.

The military yen, or otherwise affectionately known as "gun-pyo", was banned from circulation by the British Military Administration after Japan's surrender. The black market value then was about HK\$13 per Yen 10,000. Many people preferred to keep the outlawed notes not so much in anticipation of the return of Japan's power to the Colony but because they thought the price offered too cheap, and they were persuaded to believe that somehow Japanese war reparations will one day make up for their yen money in pure gold. Thus, "gun-pyo" was salted away.

Native exchangers and even big-time operators used these notes, like other currencies, to play the market. When the HK\$ "duress" notes were recognised as legal tender (April 1, 1946), the military yen sprang to attention, and there was hectic trading for some time. But it turned out to be another flash in the pan, and eventually the yen returned to its previous state of torpor. Recent quotations were, at a few exchange shops, around HK\$4-5, and during the previous week around \$7½ (per Yen 10,000). On March 4, the bombshell went off: The Chinese Oversea Association here issued a statement in which overseas Chinese (i.e. local Chinese were requested to register their holdings in military yen with the Association.

The avalanche of rumours following this announcement was explosive. The price went up four times, touching HK\$32 and 33, later in the day (March 4) subsiding and resting at \$28. Whoever engineered this coup, and a coup of the first water it was, deserves the distinction of the Supreme Order of the Sino-Speculator. On March 5, there was a fierce profit-taking as holders were quick to calculate that Yen 100,000, the price of a tael of gold at the time of Japan's surrender, was now "worth" HK\$280-320, i.e. more gold could be obtained now for one's yen than in August 1945. By the close of the day, the price was down at \$16 buyers, and \$12 sellers, and there was subsequently only little downward movement.

It should be noted that, although yen bank notes are prohibited from circulation and, by inference, from trading, the market does not observe such rule save in the non-performance of it, and exhibits in dozens of exchange shops the gaily coloured yen notes. Boat people, financially inclined wharf coolies, many women with economic background, etc. patronise such exchange shops. There are quite a few billions hoarded by the rich and playful in the Colony; they wait for the "Day".

Exchange Control

During recent weeks exchange allotments by the Exchange Control have been more liberal which has caused both surprise and favourable comment among merchants. It is supposed that the overbought position of the Exchange Control exceeds US\$12 million and that this amount is regarded as sufficient as an exchange reserve.

Exporters of tung oil from Hongkong to America have been granted recently full rights to dispose of their export bills on the open market. Amounts involved were very large; tung oil shipments to U.S. have increased during the last few months to by far the biggest export item from here to U.S. It is obviously the aim of the Exchange Control to facilitate exports from here to America by waiving exchange regulations. Exporters of tung oil, which usually arrives here without being registered by the Chinese Customs, are thus able to sell their T.T. New York on the open market. The more T.T. New York accumulates, the easier will be the local US\$ position, and rates will tend to be weaker. It is intelligent financial policy to encourage exporters to ship their goods via Hongkong by allowing them to dispose of their export bills on the open market.

Inter-Merchant Exchanges

The practice of merchants' clearing exports and imports has increased here. Many Chinese exporters of produce and manufactured goods have entered agreements for the sale of their proceeds to one or more importers. Brokers and Native bankers, operating in the open exchange market, do not approve of such practices. A large amount of foreign exchange is involved in these intermerchant clearings, and it looks as if such transactions are on the increase. Commercial banks certainly dislike this spreading method which further narrows their business.

Mr. C. E. Brookhart

Hongkong welcomes the arrival of Mr. C. E. Brookhart, American Consul, who will be in charge of financial, commercial and industrial affairs. Mr. Brookhart is one of the most experienced U.S. officials in Far Eastern economic developments. Born 1898 in Washington, Iowa, Mr. Brookhart graduated from Iowa State College, and entered Government service first as Trade Commissioner and Commercial Attaché, having been posted in London, Copenhagen, Stockholm, Warsaw, Bangkok and Batavia. Since 1939 Consul and Secretary in the U.S. diplomatic service, Mr. Brookhart was stationed in London, Singapore, Shanghai, Bombay and Calcutta.

Hongkong Clearing House

Total bank clearings for the month of February amounted to \$460,807,509, against \$442,070,008 and \$423,508,985 in January and last December respectively.

Real Estate Market

The arrival of sufficient constructional steel and timber have caused more activity in the building trade. A number of big and medium construction and repair plans have been started. The construction of several storeys on Marina House will be concluded within a few months. The early start of construction of Victory House, the modern office building planned by Sir Robert Ho Tung, is expected. The stocking up on Shell House however, has been, on advice from Shell's head office, temporarily halted. Repair work in various sectors on the Island and especially Kowloon is going on with good speed. Reconstruction of houses in the Peak district has been remarkable.

Humphrey's Building, which was sold last October by Humphrey's for \$1.4 million to Chinese interests, is reported to have changed hands again, this time for a consideration of \$2 million, the buyer said to be closely connected with ex-Premier T. V. Soong.

Crown land in Kowloon is being auctioned off by Public Works Dept. at about \$1.50 per square foot. Some Crown land on the Island (North Point) is reportedly offered at much higher prices, between \$3-4 per sq. ft. Some interest for land in the area between North Point and Quarry Bay has been shown by industrialists. An important project, which would also consider the purchase of land in this area, provides for the erection of buildings for the purpose of a permanent fair or industrial goods exhibition.

More inquiries for land and houses (damaged properties) in the Peak, Pokfulam, Repulse Bay, Sheko areas were recorded during recent weeks.

Remittances Between U.S. & Japan.

The Treasury Department on January 6, 1946, licensed the National City Bank of New York to effect restricted remittances, by mail or telegraphic transfer only, between Japan and the United States through the Tokyo Branch of the National City Bank of New York.

This authorization permits military and civilian occupation personnel and nationals of the United Nations who are accredited to the theatre to effect remittances through and establish dollar accounts in the Tokyo Branch of the National Bank of New York, subject to the controls imposed by the Supreme Commander for the Allied Powers in Japan.

Remittances to Japan from the United States are to be transmitted solely through the National City Bank of New York in the United States for credit to the appropriate authorized account in the Tokyo Branch. Remittances from Japan to the United States can be made by means of debits to authorized dollar accounts in or through the presentation of dollar instruments to the Tokyo Branch.

Currencies in Netherland East Indies

The Netherlands Indies Government and the Indonesian Republic, to which the Netherlands Government has extended the offer of de facto recognition, have reached an agreement concerning the use of both Netherlands Indies and Indonesian Republic currencies in certain areas of Java and Sumatra. Areas in which both currencies may be employed are those occupied by the Dutch and the adjacent perimeters under the Republic's control. The purpose of the agreement is to facilitate trade between the occupied zones and contiguous Republic territory pending a definite political arrangement.

Prior to the present truce there was some trade between the areas, Indonesians selling foodstuffs to the inhabitants of the Dutch zones in exchange for textiles and other imported merchandise. Japanese invasion money was employed for such transactions until its replacement by new Republic currency. Since persons in Republic territory found in possession of money issued by the Netherlands Indies Government (the so-called NICA currency) were subject to severe penalties, traders in native markets would accept NICA currency only at a premium, if at all. This, combined with other factors, caused a sharp increase in the cost of foodstuffs to persons receiving their incomes in NICA currency. It is expected that this difficulty will be overcome by the provisions that holders of NICA currency in perimeter areas will not be prosecuted by Republican authorities. Moreover, both governments undertake to guard against the use of intimidation to force acceptance of either currency, it being intended that trade in native markets be entirely free. The agreement further stipulates that both sides shall take immediate measures to facilitate transport of food and other articles between their respective areas.

The agreement is a temporary measure designed to alleviate local monetary difficulties until a definite political settlement is reached and monetary problems can be worked out on a broad and permanent basis.

Exchange Banks and Exchange Brokers

Since official foreign exchange rates have been fixed by the Exchange Banks Association of Hongkong, the business of Exchange Brokers must be regarded as suspended. Only in case of a change of the present practice and a free exchange market's re-establishment can conditions of Exchange Brokers improve. It appears, however, that the international financial tendency does not favour the return of an exchange market as prevailed in prewar days. The very institution and purpose of the organisation of the World Bank and the International Monetary Fund signify the desire on the part of governments to endeavour to keep the value of their currencies on an unchanging basis. Their values in terms of gold and US\$ have been agreed upon. Fluctuating exchange rates and arbitrage should not be condoned in the future order of international finance and currencies.

Hongkong exchange brokers are not deluded about the prospects of their profession. There is practically no exchange business conducted by brokers with regard to the official exchange market. The unofficial exchange market is, of course, an entirely different matter but Hongkong's exchange brokers have no connection with this business which is monopolised by Native Banks and mostly Chinese exchange operators in what might be correctly described as the black money market.

Local Exchange Brokers

The Hongkong Exchange Brokers Association exists actually in name only. Its chairman is Mr. H. B. L. Dowbiggin (partner with Mr. H. R. B. Hancock, now absent, in the firm of Stewart Bros.); vice-chairman is Mr. E. C. Frederick; secretary Mr. J. A. V. Soares, who is in company with Mr. F. H. Mody. These four brokers are the only ones still interested in the local official exchange market while the

UNOFFICIAL EXCHANGE RATES IN HONGKONG

		Gold per tael				CN\$ (per 100,000)				US\$ (per 100)			
		High	Low	Closing	High	Low	High	Low	Notes	D/Drafts	£		
March	3	\$273½	267½	270½	47	44½	35	34½	472	485	14.60		
	4	277	270½	276½	48½	46½	35½	35	481	486	14.60		
	5	283½	275	282½	48½	47½	35	34½	485	488	14.40		
	6	283	276	276½	48½	48	38½	35	475	489	14.30		
	7	281	275½	280	47½	47	37½	36½	485	487½	14.30		
	8	280½	267	267½	47½	46	36½	36½	476	485	14.25		

other members are partly not in the Colony, partly inactive; these members are: Messrs. W. T. Stanton, T. A. Pearce, E. S. Abraham, C. Champkin, H. S. Hitts, E. Grossman and A. G. Coppin (the last three members absent from Hongkong).

The Exchange Banks Association has fixed the following rates for merchant business:

Selling & Buying Merchant Rates of the Exchange Banks Association, Hongkong:

BANK'S SELLING	BANK'S BUYING
Sterling:—	
1/2.15/16 delivery within 2 months	1/3.1/32 T.T. O/D & 30 d/s
with a cut of 1/32 for every 3 months forward.	1/3.1/32 60—90 d/s
	1/3.1/8 120 d/s
Rupees:—	
82.3/4	83.3/4 T.T.
	83.7/8 O/D
	84 30 d/s
	84.1/8 60—90 d/s
Straits \$:—	
52.7/8	53.7/16 T.T. & O/D
	53.9/16 30—60 d/s
U.S. \$ & Canadian \$:—	
24.15/16 delivery within 2 months	25.1/4 T.T. O/D & 30 d/s
with a cut of 1/16 for every 3 months forward.	25.3/8 60—90 d/s
Australian £:—	
1/6.1/2	1/6.7/8 T.T.
	1/6.15/16 O/D
New Zealand £:—	
1/6.7/16	1/6.13/16 T.T.
	1/6.7/8 O/D.

These rates are called "agreed Merchant rates" and are arrived at by the Hongkong & Shanghai Banking Corporation and the Chartered Bank, in consultation; if there are any changes in the Merchant rates the Chairman of the Association (traditionally the Manager of the Chartered Bank) notifies the other members, and asks for their approval. The "agreed best rates to Merchants" (the term "Merchant" includes Native Banks, Exchange Shops and speculators) represent fixed minimum buying and maximum selling rates; that is to say that members of the Exchange Banks Association are at liberty to do business at better rates for themselves, sell lower to customers or buy higher from customers.

The Exchange Banks

The following 3 British, 2 Netherlands, 3 American, 1 French, 1 Belgian and 10 Chinese banks (total 20 member banks) are members of the Exchange Banks Association:

Members of the Exchange Banks Association, Hongkong:

Hongkong & Shanghai Banking Corporation
Chartered Bank of India, Australia & China
Mercantile Bank of India, Ltd.
Netherlands Trading Society
Netherlands Indies Commercial Bank
Chase Bank
National City Bank of New York
American Express
Banque de l'Indo-Chine
Banque Belge
Bank of China
Bank of Communications
Bank of East Asia, Ltd.
Oversea-Chinese Banking Corporation
Bank of Canton, Ltd.
(China & South Sea Bank, Ltd.
National Commercial & Savings Bank
Bank of Kwangsi
Shanghai Commercial & Savings Bank, Ltd.
Chinese Postal Remittance & Savings Bank

Rates of brokerage in merchant business has been fixed at 1/16th percent both for merchant sales to a bank, and bank sales to merchants. Banks do not pay any brokerage to exchange brokers for merchant business.

The Interbank Exchange Rate

The interbank rate is applied only in exchange transactions between the members of the Exchange Banks Association and the following 9 Licensed banks (non-members of the Association), viz. 1 British, 1 American and 7 Chinese banks):

Licensed Exchange Banks:

Underwriters Bank
E. D. Sassoon Banking Co., Ltd.
Kincheng Banking Corporation
Manufacturers Bank of China
Provincial Bank of Fukien
Provincial Bank of Kwangtung
China State Bank
Industrial Bank of China
National Commercial Bank, Ltd.

What little business is still, and very irregularly, conducted by exchange brokers in Hongkong concerns itself with occasional extension to merchants of the benefit of the interbank rate. However, the difference between the merchant and interbank rates is insignificant so that very few merchants bother about the benefit of, say, 1/32nd or, at best, 1/16th. Profits in merchant business are to-day very much larger than in prewar days.

The local Exchange and Licensed Banks do not see any reason for the operation of exchange brokers in a merchant market where no fluctuations in the rate occur.

Very few transactions are done by brokers in the interbank business; however, this is, strictly speaking, neither the field nor the duty of exchange brokers. The broker's importance, in the days of fluctuating exchange rates, was well expressed in the term "foreign exchange adviser"; when quotations of foreign exchange were often moving violently, and a shrewd and astute understanding of the financial markets was a necessity for traders, the exchange broker was indispensable as only he could best advise whether and when to buy, to engage in speculation at an opportune moment, etc.

The Black Exchange Market

The Chinese exchange market is left, by official connivance, to itself. Chinese government and the leading commercial banks do not take part in it, or at least not openly. The CN\$ remittance business is in the hands of Native Banks (compare our issue of Nov. 20, "Open Market Trading in CN\$"). The US\$ transactions at unofficial T.T. and draft rates are conducted mostly by Chinese exporters and importers, a group of new financial brokers with good merchant and compradore connections, some Native Banks, and a number of "ad hoc brokers". Large profits have been made in the CN\$ and US\$ unofficial markets where daily fluctuations keep banks, brokers, speculators and merchants continually busy. There are also other unofficial exchange markets operating in sterling currencies, the Indo-China Piastre, Tical, Peso, etc.

The Future of Gold in China

The Chinese Govt. has prohibited trading in gold as from February 17, when it also fixed a buying price of CN\$480,000 per ounce. Eventual nationalisation of gold is taken for granted though the period within which this scheme can be realised might prove to be a long one. Export of gold from China is prohibited since May 16, 1930 (Customs Notification 1187); import of gold into China is permitted under license which however only is given to the Central Bank. Compulsory purchase of gold at the official rate may be effected against issue of gold bonds in CN\$. Discussions and rumours are frequent in Shanghai regarding the methods to be applied by Govt. when it comes to compulsory gold conversion.

Meanwhile the black market in gold has emerged in spite of several arrests and searches conducted by Police and the Economic Supervisory Committee. The average black market price in Shanghai is currently about 30 percent higher than the official, fixed Central Bank price.

Following is a Shanghai report summing up developments in gold markets after the end of war.

The unsatisfactory budgetary situation of China culminated in a monetary inflation, at first mild in nature, but finally acute. Due to this fact the public sought refuge in gold bars. The latter became so important and popular that certain transactions were almost exclusively quoted in terms of gold bars like land, houses, key-money for lodging quarters. For savings and hoarding, gold bars became the favourite medium. As a result the volume of business in gold bars grew.

Since dealing in gold was not prohibited until the Nanking decrees of February 16, 1947, one should not speak of a "black market" in gold bars. On the other hand, the transport of gold from one place in China

to another appears to be taboo. Gold prices in Tientsin, or Chungking, have been much above those prevailing on the Shanghai market, a point which seems to include the risks and cost of interport smuggling.

The value of a Chinese jewellers bar equals US\$350, plus from three to five percent charges for transport to China. During the Pacific War the ratio between gold bars and U.S. notes always was much higher, at one time even touching, US\$800 a bar.

Since its return from Chungking to Shanghai, the Central Bank of China, as guardian of the country's currency, endeavoured to defend its note issue. Owing to stupendous military expenditure, inflation set in, causing rapid depreciation of local fiat money. The most efficacious weapon in countering the currency's downward trend was seen to be feeding the market with gold. Results however were disappointing. The causes for disillusionment cannot be placed at the doors of the Ministry of Finance, which was out to help by contracting the currency; the blame has to be apportioned to the Ministry of War with its unsatiable appetite for money.

It is idle to attempt an estimate as to how many gold bars the Central Bank has thrown on the market, with the intention of stopping further depreciation of Chinese money. The total quantity was stupendous. Though results are negative, it cannot be denied that the policy followed by the Central Bank was fundamentally correct.

China purchased large quantities of gold from the United States Treasury at its official price. The U.S. authorities, it must be assumed, were in perfect agreement with the Central Bank of China's monetary policy.

It must be admitted that the purpose for which the heavy sale of gold bars was undertaken has not been successful. But the Central Bank's action was sound and well-intentioned.

The Central Bank could not help reaping very large profits by feeding the Chinese markets with gold; a profit of US\$200 a bar.

It is reported in Shanghai that Govt. might make compulsory the delivery of all gold at a rate fixed by law. One foresees a possibility of the nationalisation of gold in China in order that the yellow metal should form the basic reserve for a new gold currency. Provided the national budget could be balanced, this project would represent a sound solution for China's monetary ills. The first alternative would be tantamount to a huge capital levy, bordering upon confiscation.

The possibility of nationalization of gold in China is not to be dismissed as remote.

Gold from Mexico

In June 1947 the Bank of Mexico initiated a sales policy, culminating in the offering of gold of its own mintage (20-peso pieces) at a price of US\$40.53 per ounce. At that time the price in some countries was about \$75. During the war years Mexico accumulated large gold stocks, partly from own mines, partly from commodity sales to the United States. At the end of April 1946, the Bank of Mexico held 7,260,000 ounces of gold, valued (\$35 an ounce) at US\$254,000,000. At the close of 1942 Mexico's gold holdings had amounted to only \$39,000,000 but by November, 1945, they had reached a peak of \$296,000,000. During the war years Mexican gold production averaged 550,000 ounces per year, all of which the Bank of Mexico offered to buy at \$35 an ounce.

Due to lack of faith in paper money, "black" markets for gold developed in Cairo, Bombay and Shanghai during the War. Later Buenos Aires also developed its gold market. Toward the end of June 1946, the United States Treasury released to Argentina the sum of \$600,000,000 in gold, a balance which that country had accumulated during the war for supplies sold to the U.S. However, Argentina did not follow Mexico's example as a free seller of the yellow metal.

In the course of 1944 the Mexican Treasury succeeded in obtaining from the United States nearly \$110,000,000 of gold for its dollar balances at the official price of \$35. When it initiated its policy of free sales, Mexico netted \$5.50 per ounce.

Among Mexico's customers Hongkong figured prominently. The Colony, being a free port, never had restrictions regarding the movement of gold. However, the inflow of the yellow metal, mainly from Mexico, during the second half of 1946, became so large that its final aims became embarrassing to the Hongkong authorities.

THE INDO-CHINA PIASTRE

The local financial market has been during certain periods preoccupied with speculation in the bank notes of French Indo-China which are quoted here much lower than the official rate of the Banque de l'Indo-Chine. That the open market should undervalue the currency of Indo-China at a time when parts of the country are devastated by warfare, and guerrillas with their characteristic methods of sabotage and production & transportation disruptions are undermining the otherwise sound economy of a very rich country, is only natural; however, the often very great difference in the open market and official rate of the Piastre cannot only be explained by the current and previous civil-warlike operations in certain sectors of Indo-China.

The rather difficult position which the French Government of Indo-China faces goes back to the time when the Japanese Army embarked on its occupational policy which, later during the Pacific War, brought about much damage to the national economy and a degree of financial instability. Cut off from the rest of the world Indo-China was left to its own efforts to keep the budget in some working order which was achieved by taking recourse to an overissue of bank notes otherwise known as inflation.

After VJ-day another affliction of the Indo-Chinese economy descended on the people, this time in the shape of the Chinese army which was, by United Nations agreement, called upon to secure the evacuation of the Japanese forces from the northern part of Indo-China. The Chinese army should have moved out, after completion of its task, by March 1946 but the final withdrawal could only be effected by May 1946. During about nine months of their stay in the designated zone of northern Indo-China, many officers and men of the supposedly liberating Chinese army indulged in widespread looting; Chinese residents in Hanoi and Hai-phong were made to pay in money and in goods whenever there was a shred of collaborationist indication; Viet-namese and French citizens, who were reported as wealthy, suffered a similar fate. Among the most ludicrous but significant looting incidents were f.i. the looting of bathroom fixtures which were then airlifted to China, the trucking away of ramshackle furniture, the stripping of cooking utensils from houses, etc. Gold and valuables were removed wherever they were sighted. Piastre bank notes were collected with great fervour. Eventually, in order to "speed up" the removal of the unwelcome "liberating & evacuating" army, the French and Vietnam authorities paid a very considerable sum to the Chinese commanders, probably as "good riddance money".

Hundreds of millions of piastres were thus taken out of the country by the Chinese army, and offered for sale in Chinese cities like Kunming, Canton etc. A large influx of Chinese army "acquired" and "confiscated" piastres came also to Hongkong.

Repatriation of Piastres

Slowly the repatriation of these bank notes started; for every repatriated piastre, which previously left the country without "value received", the people in Indo-China had to pay with goods. Only by accepting these notes at a lower than official value could great harm to the economy of the Vietnamese and other people of Indo-China be averted.

When it appeared last Spring that a political understanding between the French and the government established by Mr. Ho Chi Minh was in the offing, and economic recuperation was to progress with more speed than was noticeable during the first months of peace, general confidence was expressed in a higher valuation of the piastre on the open market outside Indo-China. However, these hopes were frustrated, and economic recovery was again delayed.

With the now expected conclusion of a working agreement between the contending native groups and the French Government, an era of prosperity will undoubtedly follow. As a consequence, the repatriation of piastres could be achieved in much shorter time than would otherwise be the case.

The Open Market

The fluctuations of piastres on the Hongkong open exchange market were only periodically heavy, usually the rate did not move much. The highest price during 1946 was around HK\$43 for Piastres 100, and the lowest rate around \$7-8. During recent weeks the price ranged between \$10-16. The tendency at present is upward on account of more merchant buying of notes which are shipped to Indo-China where purchases have to be paid for. Furthermore, the political situation in Indo-China shows good promise of an early denouement.

Official Rates of Exchange

The Banque de l'Indo-chine quotes the following rates: HK\$100: Piastres 177.92 (selling) 173.56 (buying), which rate approximates HK\$56 per Piastres 100 (or, at the current local unofficial exchange rate, about four times higher than the open market quotation).

Other official exchange rates are: Pound Sterling: P. 28.338 s., 28.132 b. US\$: P. 7.03 s., 6.97 b. Straits \$100: P. 332.91 s., 325.93 b., Rupees 100: P. 213.06 s., 210.10 b.

Inter-French Empire Quotations

Before December 24, 1946 the following rates were in force: Piastre 1 equalled French francs (called also Metropolitan franc) 10; French fr 1 equalled one Colonial franc. As from Dec. 24, 1946 new exchange rates were declared, viz. Piastre 1 to equal French francs 17; one franc of the Pacific possessions of France (fr. C.F.P.) to equal 7 French francs. The Chartered Bank in Saigon quotes one pound sterling at French frs 490.30.

The total bank note circulation of piastres is at present estimated at about 1,000 million. In 1931 the circulation stood at 150 million,

when the Japanese occupation started in 1940 the circulation was around 260 million. During the occupation period the printing of bank notes increased by about 600 million. These notes were printed in Indo-China, and are naturally of poor quality and design. They are now being replaced by notes which have been printed in England and U.S. About 400/500 million of such new notes are going to replace the worn-out, locally (Indo-China) produced bank notes.

Hongkong Speculation

The local reservoir of the piastre speculation has been estimated at around 10 million. However, the holdings in the Colony are believed to be in excess of 80/90 million. Merchants, native banks and big operators keep them. Many resourceful speculators and bankers, who were previously reaping big profits after the recognition of "duress" notes, are engaged in the piastre speculation, notably some financiers from Macao. The local Gold Exchange Society records daily a more or less heavy turnover in piastres; some speculators are also engaged in a piastre "forward" market, using the Indo-China currency, in their customary way, as speculative counter just as it is done with other currencies.

QUOTATIONS OF GOLD BARS IN SHANGHAI

(July 1937 to June 1946)

Month	Unit: 10 Shih-Liang (ounces)					Fineness: 0.992	
	1937	1938	1940	1941	1942	1943	1944
Jan.	1,140	2,010	4,086	6,568	11,286	29,617	97,031
Feb.	1,141	2,065	4,000	6,358	12,836	37,316	136,586
Mar.	1,142	2,097	5,007	6,395	16,985	47,685	144,250
Apr.	1,142	2,070	5,620	6,611	19,556	49,827	140,182
May	1,335	2,117	6,261	6,491	25,200	46,862	172,500
June	1,760	2,444	5,645	6,415	(122,091)	54,304	209,666
July	1,143	1,854	3,082	5,285	21,953	59,385	365,938
Aug.	1,142	1,968	4,165	5,725	21,634	95,846	540,577
Sept.	—	1,847	3,923	6,182	22,979	95,288	583,917
Oct.	1,147	1,988	3,938	5,686	24,615	95,880	591,188
Nov.	1,145	2,022	3,692	5,637	26,750	—	573,955
Dec.	1,142	1,999	4,135	6,022	31,461	—	730,571

Explanation: (1) In terms of C.N.C. before June 1942, in terms of C.R.B. from June 1942 to Sept. 1945.

(2) In terms of C.N.C. since Oct. 1945.

INDEX NUMBERS OF WHOLESALE PRICES OF BASIC COMMODITIES

in Shanghai

Weighted geometric mean	General Index			Food			Textiles			Fuel			Metal			Building materials			Sundries		
	23	11	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
1930	108.6	114.6	106.9	80.8	14.21	75.6	62.4														
1931	94.4	94.0	111.5	96.0	109.4	86.3	62.9														
1932	103.7	108.7	91.5	39.5	105.5	88.3	53.3														
1933	84.0	86.3	83.2	71.3	76.0	83.5	48.4														
1934	89.3	92.9	74.4	79.5	93.3	88.3	50.6														
1935	95.1	101.8	64.1	81.4	111.8	82.9	55.0														
1936	105.0	109.8	93.6	88.7	97.3	84.3	81.3														
1937																					
Jan.	100.7	101.9	97.7	103.1	79.5	91.3	97.3														
1946																					
Jan.	92,842	84,696	114,613	475,144	104,912	61,267	72,788														
Feb.	175,604	162,274	178,579	848,580	232,738	127,082	138,961														
Mar.	255,994	247,564	187,247	1,049,365	345,292	183,329	159,377														
Apr.	258,231	261,613	175,044	780,116	196,354	197,611	153,182														
May	380,725	397,700	187,110	700,698	208,530	465,510	153,600														
June	372,735	388,373	196,145	707,400	190,539	420,500	146,311														
July	407,182	428,580	201,168	749,650	242,836	432,170	160,472														
Aug.	428,550	444,367	231,306	827,350	288,880	466,078	171,854														
Sept.	509,156	530,850	280,000	900,560	342,531	520,588	225,435														
Oct.	536,300	540,488	370,408	994,075	397,545	614,113	255,559														
Nov.	531,738	530,375	319,362	1,122,103	544,525	689,557	274,513														
Dec.	571,313	560,400	355,667	1,522,621	589,071	722,600	298,753														
1947																					
Jan.	686,833	685,500	369,558	1,830,833	832,700	800,367	333,546														

DEPOSITS IN CHINESE BANKS IN 1946

	1946	Current Deposits			Fixed Deposits			Total Deposits		
		CNC\$	CNC\$	CNC\$	CNC\$	CNC\$	CNC\$	CNC\$	CNC\$	CNC\$
January		71,058,294,012	4,445,067,867	75,503,361,879						
February		77,548,457,720	4,742,612,948	82,291,070,669						
March		105,713,172,537	6,256,981,684	111,970,154,222						
April		177,475,361,594	1,125,837,255	181,601,198,850						
May		186,588,410,121	10,508,976,246	197,097,386,368						
June		212,129,305,391	18,460,546,990	230,589,852,381						
July		273,851,916,234	32,643,571,701	306,495,487,935						
August		288,249,948,331	39,968,144,345	328,218,092,676						
September		341,911,722,786	47,761,444,745	389,673,167,531						
October		369,465,328,099	51,162,271,269	420,627,599,268						
November		431,969,499,581	64,872,922,284	496,842,421,866						
December		426,721,045,985	70,341,830,015	497,062,876,000						

ASSETS, DEPOSITS AND LOANS OF SHANGHAI BANKS

December, 1946

	No. of Houses:	Total Assets:		Total Deposits:		Total Loans:	
		CNC\$	CNC\$	CNC\$	CNC\$	CNC\$	CNC\$
Chinese banks	140	380,450,706,164	137,486,234,941	131,519,488,854			
Foreign banks	13	139,160,781,680	20,876,203,119	5,984,886,298			
Native banks	62	73,401,659,164	35,996,873,211	37,891,610,568			
Trust companies	10	13,806,630,231	4,359,407,292	5,184,178,513			
Total	225	606,819,777,239	198,718,718,566	180,580,164,233			

The Loan and Interest Policy of the Joint Head Office of the Four Government Banks of China

The business policy of the four Government Banks of China, and the Central Trust, and the Postal Savings & Remittance Bank, is controlled by the Joint Head Office (J.H.O.) although no specific regulations have been drawn up. Only the Central Bank of China appears to be exempt from this control.

The Four Government Banks are the Central Bank, the Bank of China, the Bank of Communications and the Farmers Bank of China. Soon after the outbreak of hostilities in Shanghai, on August 13, 1937, the Four Government Banks formed a Joint Loan and Discount Committee. On Sept. 8, 1939, the Supreme Council for National Defence approved the formation of a joint Administration of the Four Government Banks.

Art. 2 of the "Organic Law of the Joint Head Office of Chinese Government Banks" defines its duties:—

1. The adjustment of the expenses of note issue among the Four Government Banks.
2. The planning and distribution of the financial network throughout the country.
3. The centralization and utilization of capital funds.
4. Inspection of the note reserves of the Four Government Banks.
5. The issue of and application for subsidiary notes.
6. The joint extension of loans and discounts.
7. The approval of remittances to and from the interior and coastal cities.
8. The approval of applications for foreign exchange by importers.
9. Joint investment in special war-time productive enterprises.
10. The adjustment of material resources in war time.
11. The collection and exchange of gold and silver.
12. The promotion of a special savings deposit business.
13. All other proper joint activities of the Four Banks.
14. The auditing of the budgetary estimate and actual settlement of receipts and disbursements of the Four Banks.

The Policy of the J.H.O.

The stabilization of prices and the equilibrium between supply and demand, and control of the government banks, are J.H.O. aims. By two methods this is to be achieved:

- (a) By keeping low the rate of interest on funds deposited with the government banks (1% per month on current deposits and 1.5% on fixed deposits).
- (b) By enlarging at a low rate of interest, the amount of loans granted by the banks to enterprises devoted to industry, transport, internal marketing and export.

In spite of these aims, which obviously support the efforts of the government, it must be agreed that the methods employed open the way to many criticisms and that the J.H.O. has not only failed to realize the great achievements which were expected of it but has even produced many unwelcome results.

A.—Unfavourable Results of the Low Deposit Interest Policy of the Joint Head Office.

The Joint Head Office has hitherto fixed a low rate of interest on deposits in the government banks in order to guard against the rise of interest rate on deposits in all other banks. This policy has, however, brought about many unfavourable consequences:

1. Diminution of deposits in the government banks.

Although acting in strict conformity with the instructions of the J.H.O., the government financial institutions have failed to absorb deposits from the people at large and then to develop the national economy by utilizing the wealth thus concentrated in the form of productive loans. The reason for this failure is to be found in the failure to grasp the actual facts. In the present Chinese economic situation, the wide fluctuations in commodity prices and the general business depression are the two main determinants of the rate of interest. For the past nine years, we have been witnessing a continual monetary inflation, therefore depositors have reason to expect higher interest to set against the loss of buying power caused by the depreciation of the currency. Since a great number of factories and business firms have gone bankrupt owing to business depression, the risks in capital investments are great, and high interest is therefore demanded as compensation against them. The above two determinants suffice to explain the present high rate of interest in the black market which reaches 15 per cent, i.e. over ten times that prescribed by the Joint Head Office.

2. Acceleration of monetary inflation.

Being deprived of deposits from the people at large, the government banks only depend for cash on hand upon the deposits of government organs and enterprises and upon remittances. But the government revenues collected by them on behalf of the National Treasury are limited, therefore, the total amount of cash at their disposal falls below their requirements. If the Public Treasury Law is enforced, and all government organisations deposit their revenues only with the Central Bank, the major portion of the meagre cash on hand in the other government financial institutions will at once be drained off. In such paralyzing situation, these banks can only sue to the Central Bank and secure loans from it through discount and rediscount. The Central Bank can only increase the issue of banknotes and so accelerate inflation, or sell gold bars and foreign exchange.

3. Increase of speculation.

The aggregate amount of deposits in the Four Government Banks and the commercial banks on December 31, 1936, was CN\$3,452 million. The deposits with the Four Government Banks amounted to CN\$2,306 million.

The following points emerge as important:—
(a) The deposits in the Four Government Banks exceeded two thirds of the aggregate amount of deposits in all the banks in this country. (b) A great part of these deposits came from individual savings, or from factories and business firms; deposits of government organs only represented a small percentage. (c) Deposits in the Bank of China, the largest in amount, showed that fixed deposits almost equalled current deposits.

The latest statistical data of the Central Bank are as follows: The total amount of its deposits for October 1946, amounted to 200,000 millions which consist almost entirely of current deposits, fixed deposits representing only 3 per cent of the total. Apart from the Central Bank, the deposits of the other government financial institutions totalled less than 500,000 millions, in which the deposits of government organisations and national enterprises may account for over 90 per cent. These figures show that a great change has taken place in the function of the government banking institutions; their low deposit interest policy has cut off their relationship with free enterprises.

Since the floating capital in China goes neither to the national banks nor to commercial banks, it is natural that it should find its only outlet in various forms of speculation and underground banks which are also mainly concerned with speculative activities.

4. Offer of black market rate by government banks.

Apart from the Central Bank, the other government banks which are hard pressed for cash, raised their interest rate and tend to reach the black market level, with a view to absorbing deposits from government organisations. This unusual practice is not only productive of serious and far-reaching consequences but will eventually destroy all regulations, business policy and finally the morale of all government organs.

For all this, the policy of low interest on deposits placed with the government banks is the prime cause of all these evils.

The only effective remedy to such a state of affairs is to raise the rate of interest on deposits placed with the government banks and make it as near as possible to the black market rate.

B.—Setbacks to the Loan Policy of the Joint Head Office.

The low interest loans promoted by the Joint Head Office are of three kinds. (a) Loans for Industrial production, the bulk of the loans made by the Joint Head Office; (b) Loans to aid the export of native goods in order to secure more foreign exchange; (c) loans for shipping and marketing daily necessities, with a view to stabilizing commodity prices.

These three kinds of loans are all supposed to be the best remedies for the present Chinese economic chaos, but special stress has been laid upon industrial loans which are intended to rejuvenate the industries of this country.

China's Industrial Crisis

The elements of the industrial crisis are as follows:

- (i) High cost of production, owing to high prices of raw materials, high interest rate, heavy taxation, and high wages of labour; (ii) Lack of raw materials; (iii) Insufficiency of electric power; (iv) Insufficiency of transportation facilities; (v) Inability to buy new equipment and adopt new methods of production; (vi) Internal impoverishment and low purchasing power; (vii) Dumping of foreign goods; (viii) Recurrent strikes; (ix) Incapacity of private enterprises to compete with government enterprises.

Industrial loans cannot be regarded as a panacea and are far from being sufficient to avert the industrial crisis. Furthermore, industrial loans by the J.H.O. have not been made in a satisfactory way.

1. No detailed investigation has been made regarding the difficulties of each factory which applies for a loan.

2. No examination has been made as to how the loans are used.

3. There is no control on the output and marketing of the products of the factory to which a loan has been made.

4. The bad security system works against the aim of industrial loans.

5. No skill is shown in handling the loans. (It has been a common phenomenon that when the J.H.O. is about to extend a large loan to a certain branch of industry or when the rumour of such a loan is first circulated, all the factories and brokers related to that branch begin at once to buy up large quantities of raw materials in the market; the prices rise immediately, and other factories which do not enjoy such low interest loans suffer heavy losses. The result is that loans granted in such an irresponsible way help a few manufacturers at the expense of a great many others.)

Opinions of experts regarding J.H.O. loans are summarized as: (a) These loans have helped to inflate the currency, because they are not based on deposits in the government banks, but on increased issues of banknotes; (b) They have been only in favour of a few manufacturers; (c) They have been much coveted by factories for their own individual profit.

C.—The New Regulations Governing the Loan Committee and Suggested Principles for the future.

Upon reading the "Regulations Governing the Provisional Committee for the Examination and Approval of Loans Granted to Productive Enterprises" established Dec. 10, 1946 by the Joint Head Office it appears that Government is making efforts to effect reforms in its industrial loan policy.

- (1) In the past, industrial loans at low interest were granted exclusively by the Four Government Banks, the Central Trust and the Postal Savings and Remittance Bank. The present regulations, however, extend this right to all commercial and native banks.

- (2) The regulations eliminate delay in the procedure of examining and approving applications. Many factories will now be able to apply for loans through commercial and native banks.

- (3) The regulations strengthen the understanding of the lending banks towards the borrowers by urging investigations of the manufactures which benefit by the loans.

- (4) Various government economic departments are invited to participate in the examination and approval of the loans.

(The above article is based on material compiled by the Document Section of the Faculty of Law of Aurora University. The French Jesuit Fathers of Aurora University, Shanghai, have elevated the Law and Medicine Faculties to a standard which has not been reached by any other Missionary or Chinese University in Shanghai).

Hongkong's Rubber Shoes Industry

Owing to continued high prices charged for locally produced rubber canvas shoes, exports to U.K., the largest prewar customer, cannot yet be resumed. The situation was reviewed in our issue of February 19, page 96; local rubber manufacturers are inclined to judge their position as not favourable for some months to come. It is, however, hoped that the import ceiling price as demanded by the Board of Trade, London, will be raised while simultaneously local production and raw material supply prices will decrease so that within a not too distant future exports to U.K. can commence.

Meanwhile, the otherwise efficient and rather modern rubber industry, as far as the larger factories are concerned, concentrates on the local, China and Far Eastern markets. China which was until recently a good customer, has banned the importation of rubber canvas shoes so that no regular imports are possible. Some cargo however, is shipped to South China which helps some of the smaller establishments to carry on at curtailed production hours. The export markets have shrunk on account of American competition, especially in West Africa and South America where previously good business was conducted by local rubber manufacturers. The Far Eastern markets will have to be developed if the rubber industry of Hongkong is to keep on producing until normal world trading conditions and smoother inter-Empire trade are returning. Manufacturers have now their export calculations largely on the "South Seas factor".

The Price Position

Rubber supplies, which are promised to come here in an increased and steady flow within a short time, canvas, now produced from Japanese yarn and in sufficient quantity, chemicals, timber, power and labour are available here to enable adequate production for export. The raw material prices have not undergone great changes; rubber is selling at about the same price as in 1941, canvas costs about 80 percent more; but it is the cost of labour and overheads which prevent the local rubber product from selling abroad in larger than present quantities. Labour costs have risen about 5 to 7 times; overheads are up about 4 to 5 times. The export rubber shoe price is, therefore, about 5 or 6 times higher than in prewar days. The maximum price so far granted by London makes only an allowance of 100 percent over the 1941 price although it is anticipated that eventually a 200 percent increase over the prewar level will be accepted.

Hongkong's position can only change if local labour costs can be reduced which, unfortunately, is a question involving problems of greater magnitude than industrial production in the Colony. The Government Dept. of S. T. & I., which is very much praised by the rubber industrialists for its assistance, understanding and effective support, cannot do more than to impress on the Board of Trade that local conditions alone must be blamed for the high price level of rubber canvas shoes, and to secure, as has been done some time ago, a quota for eventual exportation of rubber shoes to U.K. S. T. & I. obtained raw material supplies for the industry, and the manufacturers feel assured of continued and low-priced imports so that no hitch in their operations could eventuate in case of large export orders coming in. The controlled price for a dozen of plain Oxford rubber shoes is now \$39.20; but many manufacturers are able to sell much lower, between \$24-25. Whether there is much profit in such low price remains to be seen.

Rubber Goods Manufacturers

There are two organisations in Hongkong combining rubber goods manufacturers; the larger and more important one is the "Hongkong Rubber Manufacturers Association"; the other association, combining manufacturers and their employed workmen, is known as "Hongkong Rubber Commercial & Industrial Association". The leading and largest factories in Hongkong are: Hongkong Rubber Manufacturing, Ltd., Fung Keong Rubber Mfg. Co., Continental Rubber Factory, Tai Hang Rubber Factory, Canton Bros. Rubber Co. These five factories enjoyed before the war Imperial Preferences for exports, and employed among themselves about 10,000 labourers while the total labour force employed in the rubber industry was estimated then at around 15,000 to 17,000. These 5 factories were almost exclusively turning out footwear for export to U.K. During the last 2 years another large factory, Wah Keong Rubber Co., established itself here, having

developed from small beginnings in the years before the outbreak of war. All these factories but the Tai Hang (on account of military requisitioning of plant and site) are operating. Smaller rubber factories, some of them workshops, number about 43, of which 13 (in addition to the six large factories as above) are members of the Hongkong Rubber Manufacturers Association, and about 30 are members of the other Association (in Kowloon).

The total number of rubber factories and workshops by the end of February was about 48 (all operating). A few of them have not registered with the Labour Office either out of ignorance of the provision of the law or because 3 or 4 of the factories do not fall under the specifications which are required for acceptance of registration by HK Govt. At present only between 150 to 250 workmen each are employed by the larger factories, the total number of labourers in the rubber industry being estimated at less than 5,000. The industry employs mostly men.

While rubber canvas shoes are the main article of production, all kind of rubber ware is being turned out in Hongkong. Both local buyers and exporters of locally manufactured rubber goods state that local products are equal in quality with rubber shoes made in U.S. or Europe.

INDUSTRIAL NOTES

Registration of Factories

Registration with the Labour Office of HK Govt. is only required in case of factories which are equipped with power-driven machinery or are employing more than 20 workmen. There is a large number of native workshops operating in the Colony which neither own power-driven machinery nor employ over 20 workmen. They cannot be properly classified as industrial establishments although guilds of local manufacturers list them as such. Accordingly, statistics of local industrial establishments are often at variance owing to the difference in interpretation of what constitutes a factory.

The total number of factories registered in Hongkong exceeds now 1,000, however a number of them have not yet satisfied the Inspector of Factories as regards requirements of sanitation.

The industrial resourcefulness of Hongkong was manifested in 1940/41 when local manufacturing, under the impulse of large war orders from Britain, almost doubled their productive capacity. In 1939 all registered factories in Hongkong employed about 50,000 men and women but in 1941 the employed labour force here aggregated over 90,000.

Factories in February

A total of 35 factories were registered in February with a large number of applicants still waiting for inspection and approval. The largest factory was Hung Pook Weaving Co., employing 90; other larger factories were Majestic Chemical Works Ltd. (80 workers), the ship yards of W. S. Bailey & Co. (60 workers). Among the registered new factories were: 1 Electroplating, 1 Engineering, 1 Garage work shop (H.K. Garage), 2 Shirts factories, 1 Glass, 4 Knitting mills, 1 Metal ware, 1 Paperdyeing, 6 Weaving mills.

Two factories closed down in February: one printer, and one Gourmet Powder factory.

Power Production

The two local power companies, Hongkong Electric and China Light & Power, do not divulge any figures regarding power production for domestic and industrial use, and the amount of the peak load carried at present. Such figures are still regarded as strictly private although the community is very much interested to learn about such important details of public utility companies. The latest Hongkong Electric figures were published in our Oct. 23 issue, page 11 (first 8 months 1946 HK Electric supplied 16,225,163 units or kwh; in August 2,716,125 units were sold; peak load at that time 13,500 kilowatt). China Light & Power could not be induced to reveal any figures.

Pilferage of power is still prevalent in the Colony. Hongkong Electric, operating on the Island, is not so much exposed to this criminal abuse as is China Light & Power whose long supply lines in Kowloon and the New Territories require a special force of inspectors and watchmen. China Light loses about 20 to 30 percent of power generated each month by light pilferers, while the ordinary leakage of power is approx. 5-10 percent.

Naval Yard Workers

The Royal Navy operates here the big Naval yard on the Island, the smaller Kowloon Naval Yard, and previously operated the Aberdeen dockyard which was recently returned to private ownership. Some workmen are also employed on Stonecutter's Island. The total number of local labourers employed by Royal Navy is estimated at between 6,000 to 7,000.

Taikoo Docks employ now over 6,000, the H.K. & Whampoa Dockyard (with Cosmopolitan docks) about 4,000, and other private dockyards about 250.

Supply of Coal

Hongkong Gas Co. uses anthracite dust, gas coal and bituminous coal, sources of supply being mostly India, Japan. Coal consumption has been steadily rising due to an increase in consumers which exceed now 200,000.

The Power companies use mostly bituminous dust, approx. 10,000 tons per month.

Local industrial coal consumption is about 35 to 40,000 tons per month; bituminous lump accounts for about 50 per cent (coming from India, South Africa, U.S.). Other supplies come from Japan (under South East Asia Command allotment), abt. 9,000 t of lump and dust coal (which in prewar used to be imported from North China, Japan and Taiwan); from Indo-China abt. 3-4,000 tons of anthracite dust; and abt. 1,500 tons of gas coal.

Chinese Industrial and Labour Report

The Shanghai Power Company's output to industry in December 1946 was up slightly to 41 million kwh—approximately 79 per cent of the 1940 monthly average. The company's total output for December amounted to 68 million kwh. The textile industry's consumption reached a new high of 23 million kwh, or 55 per cent of the total made available to industry, leaving relatively scant supply for other categories of production.

Despite a 10 per cent increase in power consumption by Shanghai cotton textile mills during December, the government owned China Textile Industries, Inc., showed a 2 per cent loss in the number of spindles operating. Average day and night operation for December for China Textile Industries, Inc., in Shanghai, reached a total of 1,453,598 spindles as compared to November operation of 1,464,711. The average operation in Tientsin for November (the latest figures available) was 296,398 or 83 per cent of total standing spindleage. In Tsingtao, the average day and night operation for November was 294,467 or 66 per cent of total standing spindleage.

Official recognition of industry's problems was evidenced in the organization, under the Joint Head Office of the Four National Banks, of a Production Loan Examination Committee, which began its programme of loans to qualified enterprises at 5 per cent per month. There was a feeling at month's end that in many cases amounts extended were insufficient to meet requirements. Industry's only other sources were commercial and black markets at 15 per cent or higher rates per month.

Fuel: Hard fuel supplies at Shanghai diminished during December, stocks amounting only to about 110,000 tons at month's end, due to curtailment of movements from the Kailan mines in the north and from Keelung in Formosa. The Fuel Control Commission established Shanghai's minimum industrial requirements at 160,000 tons, at least 40,000 tons in excess of available supply. It was expected that in January the supply situation would improve, however. Coal to non-preferential industrial users was priced at CN\$160,000 per metric ton (approximately US\$48) but allocations were insufficient and many enterprises were forced into the black market where supplies were costing, CN\$380,000 or about US\$113 per ton. Good grade washed coke, available only in the black market, was quoted at CN\$1,000,000 (about US\$300) per ton.

Electric Power: Restrictions on new power connections and on the use of electricity for private consumption remained in force. New generating capacity cannot be expected until late February or early March when the Shanghai Power Company plans to put units with 37,500 kw. additional capacity into operation.

Miscellaneous Industry: During December, many of industry's problems were of a peculiar rather than of a prevailing nature. For example, in the pharmaceutical field, activity was reported

at a low level with imported brands constituting a serious competitive factor, not so much from the standpoint of price as because of previously established footholds, so important to the brand-conscious Chinese public. *Rubber manufactures* held to a satisfactory volume as concerned the production of rubber tires and footwear, although other items received relatively little attention. The demand for processed *edible oils* continued strong, but production was curtailed by the lack of soy beans, peanuts, etc. from the interior and Manchuria. *Flour milling* continued in bad shape, for against stated minimum requirements of 80,000 tons of wheat monthly (as needed to keep the mills running at two-thirds capacity), combined supplies from UNRRA and indigenous sources accounted for somewhat less than half that figure and foreign exchange was still lacking for importation through commercial channels. The *glass manufacturing* industry shared the general depression with an aggregate annual rate of production of 6,000 tons, approximately one-third of the pre-war level. The *manufacture of machinery* was virtually at a standstill with efforts for the most part directed at essential repair work, since most machine tools, and textile and industrial equipment were more cheaply procurable from abroad. The cost of a domestic-made lathe was reportedly two to three times the landed cost of an imported one. In addition, the industry suffered from a lack of skilled labour, much of it having been enticed into the textile field by high wages. In the *electrical field*, the manufacture of lamp bulbs continued brisk in the face of a heavy demand, largely from Manchuria and Formosa, two markets formerly supplied by the Japanese. Further production expansion was retarded principally by a lack of imported Argon gas and tungsten wire as well as by a shortage of fuel gas. Prices on lamp bulbs, in keeping with the present trend, have soared nearly 50 per cent since November, to about CN\$1,000 (US\$0.64), the official rate of exchange for a 40-watt bulb. The manufacture of motors, generators, switch gear and other *electrical machinery* continued to slump with producers unable to find an adequate market at prevailing costs.

Tsingtao's important pre-war industries, such as peanut oil mills, egg products factories, alcohol factories, etc. remained idle during December, mainly due to raw material shortages, occasioned by lack of transportation facilities, and isolation of production regions from the port. Only certain of the former enemy-owned factories were in operation, and these on a limited scale.

Chefoo's important silk and lace industries were dormant, the port being blocked off from commercial contact with the outside world.

In the whole of *Wuhan* (Wuchang-Hankow), at the present time, the 60,000 spindles of the Wuchang First Cotton Mill are the only ones in operation.

Labour

The December Cost of Living Index for Chinese Workers in Shanghai rose 647,032.21 from the November figure of 568,464.24 (with 1936 equal to 100), a 13.8 per cent increase, the Housing Index registering nearly a fifty per cent advance.

The outstanding feature of the month concerning organized labour was the attempted reorganization of the Chinese Association of Labour, and the selection of a new Chairman who, immediately following his appointment, left for Nanking to participate as a delegate in the National People's Assembly. China's new Constitution provides for representation of vocational groups, including unions, in national affairs. The Constitution also provides a social security system for workers.

It was learned from the Shanghai Bureau of Social Affairs that new labour disputes for December totaled 123, with nine strikes involving 127 plants and 114 non-striker disputes involving 4,583 establishments.

The Chinese Lunar New Year bonus issue was finally resolved "in principle" by a meeting of city officials and business and labour representatives, which set one month's pay as a reasonable bonus in most cases, and allowed temporary excuse for firms which have operated at a loss.

Tsingtao's idle labour forces, swelled by unemployed former industrial workers in factories now idle, were further augmented by the arrival of refugees from Communist-controlled areas in the hinterland. The effects of this fairly large-scale unemployment in this region, however, have been minimized somewhat by CNRRA-UNRRA relief plus the implementation of the national conscription law.

Import Quotas in China

In our issue Feb. 26, page 111, China's import quotas for the February-April period were given. Following is a detailed list of import quotas for goods coming under Schedule II:

Commodity Group	Quota for three months (Feb.-April, 1947) (in U.S. dollars or its equivalent)
1. Gasoline, Naphtha, Benzine, mineral; Liquid Fuel (Fuel oil); and Kerosene oil	12,075,000
2. Cotton, Raw	40,000,000
3. Rice, Wheat, and Wheat Flour	20,000,000
4. Leaf Tobacco	8,000,000
5. Jute, Raw and Gunny Bags	1,250,000
6. Coal and Coke	500,000
7. Metals	3,750,000
8. Chemicals	2,000,000
9. Paper and Wood pulp	3,425,000
10. Timber	1,830,000
11. Wool and wool waste; and Woolen Yarn and Thread, pure or mixed	1,400,000
12. Aniline Dyes and other Coal Tar Dyes, n.o.p.f.; Indigo, Artificial; and Sulphur Black	2,275,000
13. India-rubber and Gutta-percha and Manufactures thereof	1,100,000
14. Oil, Lubricating; and Oils, Fats, and Waxes, n.o.p.f. ...	1,160,000
15. Machine Belting & Hose, other than those made of rubber, and Leather Belting, Starch; and Tanning Extracts, Vegetable, n.o.p.f.	345,000
16. Sulphate of Ammonia; Fertilizers	(Suspended)
17. Artificial Silk Yarn	585,000
18. Pharmaceuticals	(Suspended)
19. Cement	(Suspended)
20. Passenger Motor Cars (other than those on the prohibited list) and Chassis thereof	(Suspended)
21. Sugar	(Suspended)
Total	99,675,000

It has not been announced by the "Board for the Regulation of Imports" (China's Import Control) what quotas would be given for goods coming under Schedule I (Capital Goods). Goods coming under Schedule III are presumably excluded from importation. All goods under Schedules I to III were enumerated in our issue Nov. 27, pp. 2-4.

Regarding the quotas allocated under Schedule II, it appears that the Chinese Government is confident that the quota allocated to various groups of commodities will result in directing the use of the nation's foreign exchange resources into the most productive channels, but at the same time will be able to meet the essential industrial needs of the country.

The quota on petroleum products is substantially larger than the volume of pre-war importation, as the continuous and cheap supply of fuel oil, in view of the tight coal situation, is considered essential to the generation of power for industry and water communication, and gasoline and kerosene are necessities in their respective fields.

The cotton quota is determined in the light of actual industrial requirement, taking into consideration the importance of the textile industry and the possibility of the development of a cotton yarn export market. The Government is embarking upon a scheme to expand the domestic cotton production in 1947, so as to render the country less dependent upon foreign cotton.

The quotas on rice, wheat, and wheat flour are believed ample in supplementing the nation's food supply.

The continuous importation of tobacco leaf is rendered necessary for the maintenance of an industry which is productive of large revenue.

The quota allowed for jute and gunny bags is nearly three times the value of pre-war importation, as packing materials are indispensable to exports.

The quotas announced on artificial silk yarn, metals, and timber do not include the amount to be obtained through barter arrangement with Japan.

The quotas are determined upon the basis of the average value of importation during the three pre-war years, taking into consideration the condition of domestic production and the possibility of domestic substitutes.

Chinese Agriculture Report

The U.S. Agricultural Mission to China has expressed the belief that Chinese farm income can be greatly enhanced and the poverty prevailing in so many rural communities substantially reduced by improvements in land tenancy, farm credit and agricultural marketing. The Mission also sees agriculture as the most important source for obtaining the foreign exchange required for the development of China's industry.

Rather optimistic crop news items appearing in the vernacular press during December referred to China's 1946 rice crop as "the best in twenty years" and stated that "an ample rice supply is assured". Some news items originating in Communist-held regions also reported in highly favorable terms on this subject. Despite these emanations, there appears no reason for changing previous estimates of China's important needs for the period between the 1946 and 1947 harvests—the requirements of cereals totaling approximately 1.5 million tons.

Manchuria also is reported to have had a satisfactory harvest, despite troubled conditions. Soya beans, especially, are said to be plentiful. In the Nationalist-controlled area, however, production of all crops in 1946 was generally below that of 1945, due primarily to reduced acreage, shortages of labour, draft animals, fertilizers and irrigation facilities, as well as to the unsettled political situation.

The following table gives an Estimate of Acreage, Average Yield and Production of Crops in the Nationalist-controlled Area of Manchuria in 1946:

	Acreage (Hectares)	Yield (Kg.)	Production (M. Tons)
Wheat	60,046	437	26,240
Rice	56,237	1,372	77,193
Kaoliang	1,590,560	1,350	2,147,512
Millet	909,891	1,007	916,558
Soy Beans	887,975	1,191	1,057,722
Corn	737,025*	1,216	896,222
Potatoes	27,909*	5,044	140,774
Broad Beans	61,541	1,036	63,728
Peanuts	3,286	1,036	3,286
Peas	1,778*	829	1,474

* Incomplete.

According to investigations conducted by the China Textile Industries, Ltd., Tsingtao Branch, a government enterprise, about 35 million pounds of cotton (equivalent to 110,000 bales of 500 lbs.) were produced in Shantung during the year. The sweet potato crop, an important item in the diet of that region, was also reported excellent. Growing conditions for the important winter wheat crop have so far been ideal. Tobacco and peanut crops suffered from the necessity for sacrificing cash crops in favour of food crops, due to isolation of Communist-held areas from normal trade contact with outside markets.

The Hupeh Agricultural Rehabilitation Commission has formulated an extensive plan for planting of 6,500,000 mou of land to cotton in that province in 1947. In order to induce farmers to improve the quality of cotton produced, 700 tons of Dalfos cotton seeds, sufficient for planting 140,000 mou, are to be distributed in several designated areas. (One mou of land is approximately equivalent to one-sixth of an acre.)

The Cotton Improvement Commission of China is planning for 12.5 million piculs of lint cotton in China for 1947, the figure representing an average pre-war crop. It remains to be seen what can be done in the Communist-held areas.

Report on Hainan Island

The leading Chinese paper, Ta Kung Pao, recently commented upon the state of affairs in Hainan as follows: "Hainan Island, one of China's richest lands, has again returned to the state of a desolate island in the South China Sea to-day after a six-year period of development by the Japanese. The Japanese had done more to develop the island in six years than China in 2,000."

The authorities in Kwangtung think of development of Hainan first of all in terms of "mopping up". The interior of the island, which is as large as 3/4 of Taiwan, is ruled by Communist and peasant committees who also are, at times, in control of parts of the coast. The island has about 10 towns, including the capital Kiangchow, and the port of Hoihow (which the Japanese developed during their stay in the island where they landed first on February 11, 1939). The Kwangtung Govt. and the National Army

have repeatedly but unsuccessfully tried to suppress the Communist groups; all campaigns and even personal inspections by the top men of Canton did not lead to the desired goal. The coast and most of the towns, however, are securely held by the Kuomintang. Under such latent civil war conditions—mopping up campaigns are periodically announced, listlessly attempted but never really put through—the economic development of Hainan remains another of the many paper dreams and blueprints of post-war China.

The island is tropically fertile and possibilities for development are enormous. If not for the Japanese occupation, conditions would still be archaic even in the area of the island's capital and harbour. The Japanese built, naturally for reasons of military necessity, some highways, houses, bridges, piers, port facilities, etc. Conditions of life in the island are very primitive and pristine.

The Canton blueprints for development of the island outline the necessity of building a railway line around the island, building highways and establishing a telegraph service; agricultural development is dependent on the execution of an "irrigation plan" so that farming and sugar plantations can prosper. Other sectors of the blueprint provide for development of the fishing industry and the manufacture of salt.

If properly developed, with sufficient capital, honest government, democratic procedure in tackling all jobs, the future of Hainan could be a bright one. It appears, however, that the Hainan population is largely not supporting the present administration and peace preservation authorities from Canton, and petitions have been sent on several occasions to Nanking to allow Hainan to establish an autonomous administration. If left to themselves, the islanders would be able to bring about peace between all sections of the population.

The Rulers of China

The Central Government of China is, according to the Chinese liberal press, controlled by four military groups:

(1) Whampoa Military Academy group. Among this group are Generals Hu Ching-nan, Sung Hai-lien, Tu Yueh-ming, Kwan Ling-cheng, Liang Hwa-sheng, Li Yen-nien, Li Hsien-chou, Li Yu-tang, Li Tien-chun, Huang Chieh, Li Wen, Liao Yao-hsiang, Kwei Yung-ching, Cheng Tung-kuo, Sung Yuen-liang, Ho Kwei-chang, Li Mo-an and Wang Yao-wu. The importance of this group cannot be over-emphasized as they represent the direct supporters of the Generalissimo.

(2) Paoting Military Academy group. Among the best known generals of this group are Generals Chen Cheng, Lo Cho-ying, Wang Tung-yuan, Kuo Chan, Kuo Chi-chiao and Wan Yao-huang. This group is very powerful as Lo is now governor of Kwangtung, Wang governor of Hunan, Kuo Chi-chiao governor of Kansu, and Wan governor of Hupeh.

(3) Japanese-trained officers' group. Among those who graduated from Japanese military academies are Generals Ho Yung-ching, Tang En-po, Ku Chu-tung, Chien Ta-chun and Liu Chih. Generals Chao Hao-sun, Chen Yi and Hsiung Pin are also graduates of Japanese academies, but they are more or less connected with the "Political Science Group".

(4) Revenue Guards group. This is a special branch of the New Army originally belonging to the Revenue Guards Corps of the Ministry of Finance, under the command of General Sun Li-jen. This army made a good showing in the battles of Shanghai and of Burma. Many of the high-ranking officers of the army are graduates of the National Tsing Hua University and the United States West Point Academy.

Outside the Central Govt. are four provincial military groups with more or less independence from Nanking and the Generalissimo.

(1) Northwest military group. Most of the generals, including Feng Chih-an, Liu Jui-ming, Sun Lien-chung, Pang Pin-hsun, Ma Fa-wu, Kao Shu-hann (already has joined the Communist Army), Sun Liang-cheng, Chang Lan-feng, and Wu Hwa-wen were formerly under the command of the well-known Christian General Feng Yu-hsiang.

(2) Shansi-Suiyuan group. Troops under the command of General Fu Tso-yi belong to this group.

(3) Northeast military group. This group represents the old Northeast Army under Marshal Chang Tso-lin and later "Young Marshal" Chang Hsueh-liang. However, recently this group has disintegrated, as the remnants of the 51st Army have been reorganized, the 41st Army has been defeated by the Communists in North Kiangsu, and only the 53rd Army under command of Chow Fu-cheng remains.

(4) Kwangsi group. Troops under the command of Generals Li Tsung-jen, Li Pin-hsien and Hsia Wei belong to this group.

Also outside the Central Govt. with practically autonomous status are the following five provincial military groups:

(1) Szechuen-Sikong group, including Liu Wen-hui's troops in Sikong, Pen Wen-hwa's troops in Szechuen, Wang Tsan-hsu's troops, Yang Sen's troops in Kweichow, Wang Lin-chi's troops, Teng Hsi-hou's troops in different parts of Central China.

(2) Shansi-Suiyuan group, including Gen. Yen Hsi-ahan, Wang Ching-kao and Chao Chen-shou.

(3) Yunnan group, including Gen. Lu Han's troops and Gen. Lung Yun's old troops.

(4) The Muslim Army, including the Kokonor group under the late Gen. Ma Chi, and the Ninghsia group under Ma Fu-hsiang.

(5) The Inner Mongolian Army, including the army under the command of Prince Teh and Li Shou-hsing, who went over to the puppets during the war but are still in existence.

Non-Political Aid to China

The Chinese Ministry of Information, London Office, issues weekly a bulletin in which articles and newsbriefs are published. In the February 20 issue, the Chinese Ministry of Information editorialized on the question of non-political aid to China as follows:

The Times, in a recent editorial dealing with the House of Lords debate on the situation in China, sounded a constructive note when it urged that the only practicable policy for Britain to pursue at present along with the United States, is to afford to China the kind of assistance which does not carry with it the risk of political or economic domination. The wisdom of this counsel is clear from the existing difficult circumstances. At a time when the country is suffering from serious political and economic ills, the natural course is to search for political and economic remedies. Yet these remedies, as the journal rightly pointed out, can only be applied by the Chinese people themselves, and not by any outside agency without exposing it to the dangers of partisan intervention. The failure of General Marshall's mediation was conclusive on that point.

To say this is not to imply that China will deny herself any aid from outside. Far from it. At no time, in fact, does she stand in greater need of a helping hand in her desperate groping out of her present perplexities. Nor will such aid, given to her people in a disinterested way, fail to produce lasting impression and goodwill.

With the Chinese people now deep in internal strife and debate over the future of their country, in which they are at one in desiring democracy, unity and peace and yet are hopelessly divided as to the best means of attaining the goal, it is surely to communities which have travelled the same road before them that they should turn for guidance. And of these communities none can help them more by example than Britain.

Report from Siam

Export controls on Siamese shipments of all commodities except rubber, rice, tin, and teak have been abolished, according to a communique issued by the Prime Minister's office on January 20, 1947.

The announcement further indicated that exporters of decontrolled commodities are now free to utilize foreign exchange obtained from exports for importation of goods. Exporters of rubber, rice, tin and teak—products which furnish the bulk of Siam's foreign exchange—will receive certain benefits, designed to increase shipments of these commodities. Control of these commodities will be exclusively in charge of the Bank of Siam.

It has also been arranged that the Bank of Siam will provide foreign exchange for the Siamese Government's expenses in foreign countries and for purchase abroad by the general public of essential commodities. The Government will consider granting periodically to merchants as much foreign exchange as possible, at official rates of exchange, for the import of foreign goods.

Sale by the Bank of Siam to the Federal Reserve Bank (New York) of 7,988,030.162 grammes of gold, formerly held as part of the currency reserve, was completed during the third week in December. Of total proceeds realized from this sale, amounting to

approximately US\$8,977,000, a small portion has been earmarked for Government expenditures in the United States to cover purchases of essential commodities and equipments required for rehabilitation. The major part of the proceeds, however, has been made available to importers for purchase in the United States, under special licenses, of certain priority goods, according to the terms of Foreign Trade Regulation Board Notice No. 7 to Importers.

Notice No. 7 states that goods for which applications for special import licenses will be considered are as follows:

A. Goods deemed by the Board to be urgently required for the continuance of Siamese production, industry, or transportation (excluding new vehicles, but including spare parts for lorries, busses and delivery vans, and tires and tubes for such vehicles).

B. The following commodities:

1. Raw cotton, cotton fabrics, yarns, twists, and threads, apparels, blankets, and made-up mosquito nets.

2. Such medicines, drugs, and surgical and dental supplies (other than toothbrush and dentifrices) as the Board considers to be in short supply.

3. Agricultural tools and appliances other than chankols.

4. Metal goods as follows: Nails, screws, spikes, sheets; plates, sections, galvanized corrugated sheets, pipes and fittings, mild steel bars 1-1/2 inch, bolts and nuts, hand tools, wire ropes, sewing needles, fish hooks, holloware, locks, padlock and keys.

5. Fuel and lubricating oil.

6. Certain machinery and parts and accessories thereof, including machinery for rice mills and sawmills; agricultural machinery; sewing machines.

7. Industrial chemicals and reagents.

8. Milk and milk products.

9. Pedal cycles and spares and accessories thereof.

10. Paper.

Applications are received by the Trade Control Department through an authorized bank for special import licenses with United States dollar exchange for these goods on condition that applications are marked "exchange from special account"; that the applicant produces evidence that shipment can be made within 3 months of the date of application; and that the applicant states on his application that he will respect any advice as to selling-price limits that may be suggested by the Ministry of Commerce.

Japanese Silk & Rayon Yarn Production

Production of raw silk in Japan during November 1946 totalled 10,018 bales as against 9,581 bales during October, the highest since the end of the war. During the month 13- to 15-denier silk accounted for 32.4 percent of production. Of a total of 284 filatures, 239 were reported in operation at the end of November. Four new filatures commenced operations during that month.

The weaving of silk fabrics increased to 3,302,000 square yards in November from 2,459,000 square yards in October.

Exports of raw silk from Japan to the United States from March through December 1946 totalled 81,475 bales.

Synthetic Fibres and Products

Production of rayon filament yarn in Japan dropped to 904,000 pounds during November 1946 from 1,156,000 pounds in October, and staple fibre to 1,689,000 pounds from 1,860,000 pounds.

During November production of filament-yarn fabrics totalled 6,198,000 square yards as against 6,146,000 square yards in October. Spun-yarn fabric production increased to 2,813,000 square yards from 2,592,000 square yards.

Shortages of raw materials and restrictions on consumption of electric power affected the production rate during the month under review.

The production of 300,000 pounds of 120-denier bright viscose filament yarn is reported under way for export to Hongkong.

REVIEW & OUTLOOK OF THE ECONOMY OF THE PHILIPPINE REPUBLIC

Looking back at the year 1946, improvement was evident in some phases of Philippine war-torn economy. Imports of consumer goods had increased steadily throughout the year, and by December stores were generally well supplied with merchandise, although shortages existed in some lines which had not been restocked since the United States maritime strike. Four piers were available in Manila for civilian ships, and efficiency in handling cargoes was notably improved. Shortages of warehouse space, however, persisted. No large-scale reconstruction was possible in 1946, although the repair of damaged buildings progressed slowly, and by the last quarter of the year some increase in residential building was noted.

Notwithstanding rationing and price controls, Government efforts to combat the black market continued largely ineffective, and prices in December of both imported and domestic goods were from two to four times prewar levels. While black market operations were encouraged by prevailing scarcities, the high price levels were sustained in large measure by surplus spending money, circulation of Philippine currency in 1946 reaching record-breaking amounts. Following numerous strikes for higher pay, the average wage level appeared by the year's end to have been settled at about four times the prewar figure.

Food Supply Position

A relatively favourable food situation for at least the early part of 1947 was forecast on the basis of continued large receipts of imported foods and increased domestic production of rice and sugar. Speculation in imported food products diminished somewhat following settlement of the United States west coast shipping strike, and the Government announced that its policy of commandeering supplies of flour and canned milk—initiated in October by the Philippine Relief and Rehabilitation Administration in an effort to combat the black market—would be discontinued as soon as arrivals were again adequate. Supplies of most canned fish continued low at the end of the year, and the shortage of fresh fish was aggravated by the lack of equipment for deep-sea fishing and by agrarian unrest in central Luzon, where most of the fish ponds are located. There was also a shortage of fresh meat, because of wanton destruction of cattle and fowl during the war.

Although consumers experienced considerable inconvenience and some hardship during the critical months of food shortages—from August to October 1946—with greater consumption of corn and tubers in place of rice, widespread suffering was avoided. Stocks of rice accumulated early in the year by the National Rice and Corn Corporation (NARIC) were rationed to consumers in Manila, and it was hoped that domestic supplies, plus imports in the first half of 1947, would be sufficient to permit a system of wholesale distribution by NARIC, in place of direct rationing to consumers. Actual receipts of imported rice in 1946—chiefly from the United States—were approximately 150,000 metric tons, and with the domestic crop estimated at 1,100,000 tons, total supplies were probably not in excess of 1,250,000 metric tons.

Plantings in 1947 are expected to remain below normal, but essential needs should be met if supplies are wisely distributed. While retail prices may be lower, large quantities of low-cost rice will have to be imported, or sufficient rice produced within the island for domestic demand before restoration of normal price levels can be expected.

Sugar Output

Fourteen or 15 mills—in contrast to the prewar total of 41—may grind the 1946-47 sugar crop. Output was estimated officially in November at from 100,000 to 105,000 short tons which, although still inadequate, should meet basic requirements in the calendar year 1947, possibly providing consumers with twice the amounts available in 1946. Importers, however, are expected to bid for small quantities of refined sugar from foreign sources, particularly in the latter half of 1947.

Although considerable interest in expansion of the sugar industry to its prewar status developed in 1946, a crop approaching former levels is not expected until the season of 1949-50. Rehabilitation is retarded by

financial problems as well as by the lack of seed, fertilizer, farm implements, mill machinery and construction materials. Many mill operators are expected to submit claims for war-damage payments, while planters are hoping to obtain financial assistance from the Rehabilitation Finance Corporation established by the Philippine Government. Some crop loans have been made by the Philippine National Bank, but in general there is no credit readily available to promote the planting of cane.

Delays in renewals of planter-mill contracts also serve to retard recovery of the sugar industry. Under the usual 30-year contracts between planters and millers, from 50 to 60 percent of the sugar has gone to planters, who are now requesting substantially larger shares, in some cases as much as 70 percent of the crop. Several millers, unwilling to accede to these demands, are not proceeding with reconstruction until the contracts are settled.

Tobacco Crops

Drought during the growing season for tobacco, and severe storms at harvest caused an abnormally low yield for the 1945-46 tobacco crop, placed by trade estimates at approximately 17,170,000 pounds. Only a small portion of the crop remained in the hands of growers in November, most stocks being held by manufacturers, exporters, dealers, and the National Tobacco Corporation. During the first half of 1946 exports of tobacco leaf amounted to 837,310 kilograms, shipped chiefly to Spain, China, and the United States.

Forecasts for the 1946-47 season vary widely, estimates of the planted area ranging from 50 to 100 percent of the prewar average. The principal unknown factor is the extent to which growers, especially in the Cagayan Valley, Luzon, may plant subsistence crops rather than tobacco.

Abaca Output

Production of abaca was estimated in November 1946 at 110,000,000 pounds for the year, or about 28 percent of the prewar output. Exports, which amounted to nearly 70,000,000 pounds in the first 10 months, were expected to reach 90,000,000 pounds for the year as a whole.

Deterioration of abaca plantations in southern Mindanao—controlled largely by Japanese before the war—continued throughout 1946, and no steps were taken toward replanting. Uncertainty concerning the final disposition of Japanese lands, lack of skilled management, and some shortages of stripping machines were retarding influences. In other abaca areas—the Bicol region of southern Luzon and Leyte and Samar Islands, where the fiber is grown on small holdings—it appeared more profitable to produce copra and food crops.

On November 18, 1946, the exclusive purchasing agreement entered into the previous August between the Reconstruction Finance Corporation and the Philippine Government was terminated, and controls over price and destination of abaca fiber exported from the Philippines were lifted. Following an initial price advance of about 40 percent, when the market was opened to all buyers and sellers, a relatively unstable period was expected for the balance of the year. Should full utilization of all mature abaca be made in 1947, production might equal or exceed half the prewar average of about 400,000,000 pounds. Higher prices than anticipated, as well as more effective organization of workers, would be necessary, however, for maximum production.

Copra Exports

The output of copra increased steadily during 1946, with an average of 60,000 tons exported in the later months. Rapid improvement followed the provision by mid-year of sufficient transportation facilities on land and water. Higher prices, declining costs, and more abundant labour also contributed materially to rehabilitation of the industry, and copra exports for the year were expected to approach 600,000 long tons. Of 510,000 tons exported in the first 11 months, 360,000 were shipped to the United States.

The agreement between the Commodity Credit Corporation and the Philippine Government—similar to the abaca agreement and regulating the sale and price of copra—was also terminated late in 1946.

Agricultural Promotion

With the release of a small portion of funds appropriated by the Commonwealth Government in 1945, activities of the National Land Settlement Administration were renewed in 1946. Settlers received assistance in rebuilding homes, while some were supplied with carabaos and farm machinery. Reports from the Koronadal settlement in Cotabato Province, Mindanao, and the settlements in Isabela and Cagayan Provinces, Luzon, indicated that considerable areas were planted in rice, corn, and other food crops.

President Roxas has repeatedly stressed the intention of his administration to promote agricultural resettlement on an expanded scale, as a measure for alleviating agrarian unrest, particularly in central Luzon. New sites for additional projects have been designed in Davao Province, Mindanao, and in Negros Island. Plans have also been announced for purchase by the Rural Progress Administration of large estates in central Luzon for distribution in small tracts to farm operators.

Industrial Activity

Relatively little industrial activity took place in 1946. The Government's textile mill and cement factory were operating in December at about half prewar capacity. Two coconut-oil mills in Manila, and one in Laguna Province, were crushing limited amounts of oil for domestic consumption and the mill in Cebu was expected to start operating during the first quarter of 1947, if shipments of the necessary machinery were not delayed. Four factories produced soap and vegetable lard in 1946, and the output of desiccated coconut in three plants reached an average of about 100,000 pounds a day.

The manufacture of cigars was resumed only on a very limited scale, output being restricted by shortages of leaf and high cost of labour as well as by limited manufacturing capacity. Cigarette production supplied but a small fraction of the domestic market. A large brewery and two soft-drink bottling plants were opened in Manila.

A number of small sawmills were able to operate, chiefly with portable equipment, and a great many companies undertook the manufacture of rattan furniture both for export and for the domestic market. Three canvas-rubber-shoe factories reopened in a small way, and one leather-shoe establishment reached about 10 percent of its prewar production. A paint factory started operation on a limited scale.

Repair work was undertaken by some mining companies, but mineral output was negligible and no considerable production of gold or other minerals was expected before the end of 1947.

Housing Reconstruction

Reconstruction in 1946 was confined mainly to the repair of damaged buildings. Building materials continued scarce and expensive and labour costs high. Contractors estimated that building costs in October were three and one-half to four times higher than before the war, with a house of a type costing 10,000 pesos in 1941 costing from 35,000 to 40,000 pesos in late 1946, if it could be built. (One peso=US\$0.50.) Cement was priced at 4.50 pesos per sack compared with 1 peso before the war; gravel cost 7.50 pesos a sack as against 1.50 pesos; and lumber was 35 centavos a board foot in contrast to 7 centavos in 1941. Imported building materials such as reinforcing bars, plumbing supplies, nails and hardware cost only about two and one-half times prewar prices when imported direct by the builder, or when purchased from an importer who sold at a reasonable market. Building supplies, however, were not easily obtained except on the black market at a cost of from five to six times prewar prices. Other difficulties, moreover, faced the builder whose problems apparently did not end when materials were obtained. It was reported that pipe was frequently dug up by looters during the night and resold to the builder the next day.

Living Costs

Reacting favourably to an Executive order suspending the enforcement of price controls, living costs in Manila fell to a lower level in September than in any previous month in 1946. The maritime strike in the United States, however, encouraged hoarding of imported commodities, and although price ceilings were reestablished, costs of foodstuffs and other necessities, both imported and domestic, increased generally. By October the estimated living expenses of a Filipino family of six in the clerical class had advanced about 10 percent to a total of 430 pesos, compared with 392 pesos in September and with an average of 120 pesos before the war. General household needs cost an estimated 380 pesos in October, including 100 pesos for rent of a three-room house and about 260 pesos for food. Clothing costs added about 37 pesos, school supplies 7 pesos, and transportation to and from office 6 pesos. Compared with the prewar period, food costs were more than four times greater, while rents had advanced over three times.

Although some increase in the construction and repair of small residential buildings and apartments was evident toward the close of 1946, natives still found it necessary to crowd several families into one house, while the families of American and European men frequently could not be accommodated in Manila. The only hotel suitable for Americans charged 20 pesos a day for one person in a single room, or 25 pesos for two in a single room with bath, and the cost of meals added approximately 15 pesos per person per day.

Manila Port Conditions

Improvement in the congested condition at the port of Manila occurred in the latter half of 1946, even before effects of the United States maritime strike were felt. With the imposition by the Bureau of Customs of very substantially increased penalties for leaving goods on the piers, and with greater cooperation from customs brokers and consignees, an average of more than 140,000 tons a month of imported goods was cleared over the docks, compared with about 90,000 tons before the war. The heavy backlog of ships awaiting berthing space was reduced from about 25 to 8, and the waiting time cut from 5 or 6 weeks to 16 or 18 days. Inadequate packing, however, continued to cause heavy losses of cargo. With no means of identification, goods arriving with markings obliterated and cardboard containers almost completely disintegrated, were sold at auction by the Bureau of Customs after 30 days on the pier.

Foreign Trade

The compilation of figures for foreign trade in 1946 has not been completed by the Philippine Government, but preliminary estimates indicate that the value of import trade exceeded any year in Philippine history. Except for shipments of copra, which apparently established a record, exports of Philippine products, on the other hand, were negligible, and indications are that the year's total export trade probably was lower than at any time since World War I.

During the first 6 months of 1946 copra accounted for approximately 65 percent of the total value of exports, and abaca shipments for about 15 percent. Other Philippine products, exports of which were insignificant in 1946 compared with prewar averages, included desiccated coconut and copra meal, leaf tobacco, rattan and manufactures, cordage, fish, and hats. Notwithstanding serious shortages of caustic soda and tallow, soap appears to have been manufactured in sufficient quantity to permit exports considerably in excess of prewar values, while the value of fresh mangoes exported also exceeded prewar levels.

In normal times the Philippines were self-sufficient in neither foodstuffs nor textiles, and with extreme shortages in both products caused by the war, foodstuffs and textiles remain the leading import categories. Together they accounted for about one-half of United States exports to the Islands in 1946.

In the absence of Philippine statistics of foreign trade, official trade figures of the United States—with which, as before the war, the bulk of Philippine trade is conducted—are indicative of the trend in 1946. Leading exports from the United States to the Philippines and principal imports therefrom, in the first 9 months in 1946 were as follows:

United States Trade With the Philippines, January-September 1946 U.S. Exports

	Value
Foodstuffs:	\$ 14,284,000
Rice	6,030,000
Vegetable preparations	4,970,000
Fruits and preparations	4,585,000
Other foodstuffs	23,259,000
Total	53,128,000
Textiles:	
Cotton piece goods	20,294,000
Other cotton manufactures	7,416,000
Rayon piece goods	3,072,000
Rayon remnants	3,250,000
Other textiles	34,032,000
Total	50,319,000
Cigarettes	18,872,000
Motorcars and trucks	7,253,000
Medicinals and pharmaceuticals	6,778,000
Soap and toilet preparations	5,611,000
Paper and paper products	5,012,000
All other	57,947,000
Total exports	204,920,000

U.S. Imports

Copra	13,783,000
Abaca	2,957,000
Coconut meat, shredded	664,000
Rubber, crude	464,000
All other	942,000
Total imports	18,810,000

Finances & Loans

The Philippine Rehabilitation Finance Corporation officially opened for operation on January 2, 1947, in accordance with provisions of Republic Act No. 85, approved October 29, 1946. The 300,000,000-peso organization, the charter of which is given a tenure of 50 years, will form the nucleus of a board programme for economic reconstruction and expansion, according to its sponsors. It will offer credit to individuals, corporations, and associations for the rehabilitation or development of agricultural, commercial, or industrial enterprises; and grant loans to Government agencies for rehabilitation and for such projects as public utilities, water-power development, and the purchase and subdivision of large estates. Funds will also be made available to cities, municipalities, and Provinces for rehabilitation and for self-liquidating projects such as public markets and waterworks, while private individuals may receive loans for home building.

The initial working capital of the Philippine RFC is officially set at 50,000,000 pesos (1 peso equals \$0.50), which represents estimated withdrawals from the Treasury certificate fund in excess of requirements. The chief source of capitalization, however, will be the sale of surplus property. The net assets of both the Agricultural and Industrial Bank and the Financial Rehabilitation Board, which are absorbed by the corporation, will also add to its funds. Furthermore, RFC officials propose to offer to the general public at par, a 1,000,000-peso bond issue.

President Roxas personally appeared before the Philippine Congress to urge approval of bills authorizing creation and capitalization of the Philippine RFC, stressing the immediate need for a source of credit to aid industry and commerce. War-damage payments, the President explained, would be delayed and probably inadequate to enable industry to get back on its feet, and private banks were unwilling to make long-term loans at reasonable rates of interest. While the Philippine RFC will provide needed capital, President Roxas emphasized that it will not subsidize losses, and that every enterprise financed by the corporation must be self-liquidating and able to meet free competition in a free and open market.

The President of the Republic of the Philippines was delegated broad authority by Republic Act No. 16, September 18, 1946, to negotiate loans and incur indebtedness with the United States Government, to cover budgetary deficits and other expenses for rehabilitation purposes. According to the act, loans may be made "under such terms and conditions as may be agreed upon."

While apparently leaving the question of terms which might be acceptable to the Philippine Government entirely to the discretion of the President, the law stipulates that as soon as a loan is obtained or an indebtedness incurred, the President must report to the Congress the amount involved, and submit a detailed programme of expenditures for congressional approval.

Payment of the principal and interest on such loans or indebtedness is authorized from the general funds of the National Treasury.

Report from British Malaya

Although complete trade statistics are not yet available, increased activity in Singapore and other port areas indicated an over-all increase in volume of Malaya's export and import trade during the third quarter of 1946. United States statistics show that our imports from that country during the first 9 months of 1946 were valued at more than \$72,000,000, with exports to Malaya in the same period valued at \$10,000,000. The American Consulate General, Singapore, reported that there had been some slight relaxation in control of dollar exchange for Malayan purchases in this country of such commodities as automobiles, machinery, textiles, and milk, which may lead to an increased flow of trade from the United States in 1947.

Although considerable progress has been made in rehabilitation of Malaya's rubber and tin industries—the country's most important sources of wealth—many problems still impede full economic recovery. Food is scarce. Despite the fact that the Grow-More-Food Campaign was in full swing during the third quarter, the rice ration was reduced further. The Government, through the Social Welfare Department, undertook a programme of providing cheap and nourishing meals in People's Restaurants and food canteens, not only in Singapore but also in cities and towns in the Malayan Union.

Textile Supply Short

Shortages of cotton textiles, and the oddly assorted varieties of those shipments which did arrive from the United Kingdom, prevented the success of several schemes to regulate prices and distribution of clothing in Singapore. At the end of September, Singapore authorities decided that thereafter all textiles would be sold on the open market. The Malayan Union Government continued to distribute textiles through employees, on estates, in factories and mines, and Resident Commissioners for village dwellers and small holders generally. In the meantime, efforts were made to obtain from abroad increased shipments of textiles.

The housing situation in Singapore was serious, and conditions were but little better in Malayan Union cities. Singapore's hope for improvement in this respect lay in derequisitioning of houses by the Military, a programme which was materializing far behind schedule. Plans had been made to construct a number of homes in Kuala Lumpur and Ipoh, but little had been done, owing to the shortage of labour and construction materials, and rising costs.

Cost of living, estimated in the second quarter of 1946 to have been three times that prevailing in 1941, edged to new levels during the third quarter. The average amount of currency and notes in circulation in July and August was more than \$337,200,000, compared with \$322,194,000 in February 1942. Silver and copper coins almost disappeared from circulation. Although some may have been hoarded, it is believed that many were melted down and sold as metal on the open market.

Dissatisfaction with the recommendations of the Pyke Wages and Cost of Living Committee resulted in additional allowances for Government employees in Singapore and the Malayan Union. Since no labour was brought to Malaya during the war, a marked labour shortage was evident, estimates placing the available force at little more than half of normal. With arrival of new personnel and equipment, and the opening up of new estates and enterprises, the situation became acute. Government and industry competed for workers—and in many cases, workers left Government and Municipal services to join private labour forces.

Strikes Continue Major Problem

During the third quarter, strikes were on the increase, not only in Singapore but also throughout the Malayan Union. Harbour workers, Chinese and Indian mechanics, naval-base employees, power-station forces, and other groups of workers walked off the job. In a large number of cases, increased wages and/or living allowances were successfully negotiated and work was resumed. Indications were, however, that labour in general had awakened to a new consciousness of rights and privileges.

Port Facilities Improved

Although much work yet remained to be done on port and harbour installations in Singapore, Port Swettenham, Penang, and other points, Malayan port capacity showed considerable progress toward prewar status. Penang's volume of trade in August amounted to 35,000 tons monthly, compared with a prewar average of about 36,000 tons. By August, Singapore had 18 secure transit sheds, compared with 9 in the preceding April. With an increasing number of coastal vessels in operation, and large numbers on order, indications were that coastal shipping might soon be back to normal.

Restoration in July of the Connaught railway bridge over the Kalang River and the arrival in September of five new 52-ton locomotives pointed toward improved railway service. On August 2, the Penang-Bangkok train run was resumed as per fixed schedule. Railway tariff charges for passengers and freight were increased.

Tin Industry Recovers Slowly

The tin industry made slow but steady improvement during the third quarter. Estimates indicated that about 10 percent of the country's mines were producing for export, and small arrivals of new equipment meant that other mines would gradually be reconditioned.

It was too soon to tell what would be the results of an announcement from London that loans would be made to the Chinese section of the tin industry for approved programmes of repair. While there had been a number of requests for these loans, the Chinese mine owners were uncertain as to some economic aspects of the matter. With few exceptions, the Chinese mine owners had little cash reserve, and, although required finance, equipment, and materials might be obtained for rehabilitation, they were dubious as to whether they would be able to meet payments on the loans at a date not yet decided.

On September 26, a basic price for Malayan tin was fixed at 370 pounds sterling delivered at the smelter Singapore or Penang, for the 6-month period from July 1 to December 31, 1946. The price would, of course, greatly benefit those mines fortunate enough to be working during the period with output estimated at 10,000 tons, and might benefit still more the Ministry of Supply with its stock of metal estimated to be well in excess of 50,000 tons.

Rubber Production and Trade.

For the first time since the war ended, actual production of rubber in Malaya was revealed during the third quarter of 1946 through the publication of more comprehensive statistics. Indications were that 128,000 tons of rubber were produced in that quarter, compared with 83,000 tons in the second quarter. During the July-September period, small holders accounted for 59 percent of production. Estimates that Malayan production during 1946 might only slightly exceed 300,000 tons were revised upward sharply, with a possibility that the total might exceed 400,000 tons.

The United States had agreed to purchase from Malaya 50,000 tons of rubber in the third quarter and 45,000 tons in the fourth quarter, but the entire amount was purchased in the third quarter. Stockpiles in Malaya and the United Kingdom were increasing as a result of high Malayan production and increasing imports from the Netherlands Indies and British Borneo. Agitation for a free rubber market commenced. The United Kingdom was the residual buyer of Malayan rubber, and a Government communique of June 21 had stated:

In order to secure a steady movement of rubber and economical use of godown and shipping space, the United Kingdom will be constantly in the market to buy the rubber at a price equivalent to 14 pence per pound.

